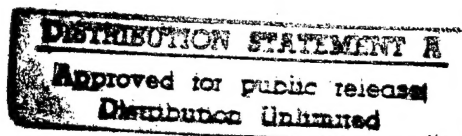


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17 October 1983

CHINA REPORT

ECONOMIC AFFAIRS

No. 390

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PRC JOURNAL ON LEADING POSITION OF STATE ECONOMY

HK270640 Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 83 pp 39-45

[Article by Liu Xun [0491 1789] of the Economic Institute of the Chinese Academy of Social Sciences: "On Keeping the Leading Position of the Socialist State-owned Economy"--dated December 1982]

[Text] There are many maladies in the administrative system of our country's socialist state-owned economy, and only by conducting gradual overall reform will it be possible to mobilize all positive factors, promote the speedy development of the forces of production, and ensure the implementation of the strategic economic task put forward at the 12th CPC National Congress. However, when we reform the administrative system of the state-owned economy, we must by no means change the nature or leading position of this economy. The "Constitution of the People's Republic of China" passed at the Fifth Session of the Fifth National People's Congress stipulates: "The state-owned economy is the economy under the system of ownership by the whole people, and the leading force in the national economy." At the 12th CPC National Congress, Comrade Hu Yaobang pointed out in his report that in the process of developing diverse forms of economy, we must "uphold the leading position of the state-owned economy," and that "to consolidate and develop the state-owned economy is to ensure that the collectively-owned economy of the laboring masses progresses in the direction of socialism, and also to ensure that decisive factors are created for the individual economy to serve socialism." The stipulations of the CPC Central Committee's conclusion and constitution give an affirmative Marxist answer to the debate over the nature and position of the state-owned economy.

1. The Ground for Keeping the Leading Position of the State-Owned Economy.

The maintenance of the leading position of the socialist state-owned economy is by no means an arbitrary wish, but is dictated by the objective laws of the development of the socialist national economy and the situation of the coexistence of the diverse forms of economy in our country. So far, all socialist countries are in the developmental stage of the coexistence of diverse forms of economy. Under these conditions, it is imperative that one form of economy takes the leading position. Marx said: "In all forms of society, there is always one certain form of production which controls the position and influence of all other forms, and so the relations of this production consequently also control the position and influence of all other relations of production. This

is a sort of omnipresent light which hides all other colors, and makes them change their appearance in specific ways." (Footnote 1) (Marx: "Preface to 'A Critique of Political Economy,'" "Selected Works of Marx and Engels," Vol 2, p 109) The leading status of one form of economy over other economic forms is manifested in the two aspects of the forces of production and the relations of production: "First, in the forces of production, it represents the most advanced and strongest production force, and consequently has a controlling and decisive influence and position over the economic development of the whole society; second, the relations of production linked to and compatible with this most advanced and strongest production force also inevitably have a controlling and decisive position and influence over all other relations of production, and are ultimately bound to transform all other relations of production into their own appearance, thereby opening up the road for the development of the social forces of production. In any country, as long as there exist in society before the Proletariat has grasped political power diverse forms of economy, then once the Proletariat has taken political power, expropriated the expropriators, and established a socialist state-owned economy, there is bound to ensue a developmental stage in which the state-owned economy takes the leading position over a mixed economy. Because a dictatorship of the Proletariat cannot by any means expropriate the privately-owned economy of the laborers, but can only gradually transform them according to socialist principles under the leadership of the state-owned economy. The socialist principles of Marxism are that ultimately, a single system of socialist public ownership will be introduced over the whole of the means of production in society, but that this is a historical process, "it can only become a possibility and a historical inevitability once the material conditions for its introduction have been prepared." (Footnote 2) (Engels: "Anti-Duhring," "Selected Works of Marx and Engels," Vol 3, p 321) Here, Engels clearly showed that under socialist conditions, the duration of time for which diverse forms of economy coexist is entirely dependent on the level of development of the social forces of production, on the extent to which the socialist economy owned by the whole people has developed on the bases of modern mechanized mass production, and on the conditions prepared by the other forms of economy themselves. If the level of development of society's forces of production is exceeded, it is fundamentally impossible to bring about the historical inevitability of the occupation by society of all the means of production in that society. The so-called "transition through poverty" is nothing more than a historical idealist illusion. However, when we have criticized the error of "transition through poverty," if we then negate the historical inevitability of the occupation by society of the whole of the means of production, and the leading position of the socialist state-owned economy in carrying out this historical inevitability, then this is not Marxist.

Before the Proletariat took political power, the social forces of production in our country were extremely low, and modern industrial production accounted for only 17 percent of total industrial and agricultural output value, while agriculture based on manual labor and handicrafts industries accounted for 83 percent. This situation dictated that after the Proletariat grasped political power, socialist modernization would be arduous and protracted. However, though there was little modern industry, it still represented the most advanced and is still represented the most advanced and strongest force of production in our country's society. After the Proletariat took political power, the

modern forces of production were expropriated from the bureaucrat capitalist class and returned to the ownership of the people's republic lead by the Proletariat, which put the economic lifelines of the state back into the hands of the people's republic, put the state-owned economy in the leading position over the whole of the national economy, and made it the decisive material condition transforming all other nonsocialist economic forms and making the transition from new democracy to socialism. After the basic completion of the socialist transformation, the state-owned and collective economies became the two basic forms of socialist public ownership in our country. In addition, there were also a small number of individual economic entities existing as a supplement to the socialist publicly-owned economy. Over the past few years, the collective and individual economies in the urban and rural areas have seen new developments, and there has also been a slight increase in the state capitalist economy through joint ventures with foreign firms. The coexistential development of these economic forms shows that our social forces of production are still at a very low level, and are developing in a very unbalanced way. Different economic forms are linked with and compatible with different levels of production forces, so their existence is historically inevitable. But their respective positions in the national economy are by no means the same. The state-owned economy has a leading position over state capitalist economy and the individual economy, and it goes without saying that it also occupies the leading position over the collective economy. Although both the state-owned and collective economies belong to the socialist system to public ownership, there are ultimately great differences between them. It is precisely these differences which decide the difference in position between the two. We will cite three such differences here:

1. The state-owned economy has much stronger and more advanced forces of production than the collective economy; the modern industrial sectors like the energy resources industry, the metallurgical industry, the machine building industry, the chemical industry, the construction materials industry, the light and textiles industries, the post and telecommunications industry, and the transport and communications industry, all of which have decisive significance in the whole of the national economy, are all in the hands of the state. It is perfectly obvious that these state-owned economies occupying the leading position in the national economy. In 1981, there were 381,500 industrial enterprises throughout the country, of which 296,800 were collectively owned and 84,200 were state-owned. Of the state-owned industrial enterprises, there were 5,000 large and medium-scale enterprises, which though they accounted for only 1.3 percent of the total number of industrial enterprises throughout the country, accounted for 43.22 percent of the total industrial output value of the country that year. They represent the backbone of the state-owned industrial enterprises, the main body of state-owned industry, and the real leading force of the whole of the national economy. This represents a strong and modernized production force which no collective economy can claim to have in the present stage in our country. Without the leadership of this strong state-owned economy, and without the modern industrial production of energy, mechanical equipment, technology, transport, and communications, and other material conditions which it provides for them, collectively-owned industry and agriculture could not possibly carry out their own modernization, or raise their own labor productivity.

2. The state-owned economy is an economy under the system of ownership by the whole people; its socialization of the means of production extends to the whole of society, while the socialization of the collectively-owned economy, as far as agricultural and industrial production teams is concerned, extends only to a few dozen households, or even a few households. The collectively-owned industry in the towns and cities, the construction industry, the transport industry, commerce, and the service industry, though their scopes vary widely, still only include a few people, or a few dozen people and those which include hundreds or thousands of people are in a small minority. And how can those collectively owned industries which connect thousands of people even compare with those industries owned by the whole people! Therefore, the difference between the high degree of socialization of state-owned economy and the low degree of socialization of the collectively-owned economy is clear at a glance.

3. There is a large number of collectively owned enterprises; in 1981, agriculture had 6 million production teams, industry had 296,800 enterprises, and commerce, the foodstuffs industry, and the service industry had 884,000 enterprises. They are dispersed, and exist independently, they have complete autonomy, and internal connection between them is not necessary. So they lack the unified and planned nature directed by the social nature of the forces and relations of production inherent in the state-owned economy.

These three things decide the leading position of the state-owned economy over the collective economy, and you cannot fail to make the distinction between their positions. Some comrades say: "There is no difference between the positions of the state-owned and collective economies"; this is obviously not in conformity with the facts. Other comrades consider that "the whole-people ownership system is seen as the highest form of socialist ownership system, and the collective ownership system as the lower form, and it is, therefore, considered that the lower form must make the transition to the higher form, otherwise it will be 'regression'; this traditional view is nothing more than an assumption, and is by no means a final conclusion. Whether the whole-people ownership system is ultimately the higher form is a question which needs theoretical exploration. But one point can be affirmed, that is, both the whole-people ownership and the collective ownership system are public ownership, and since they both uphold the public ownership system, they cannot be said to be going against the socialist principle." (Footnote 3) (Jiang Yiwei: "On Enterprise Departments," "ZHONGGUO SHEHUI KEXUE," ["China's Social Sciences"] No 1, 1981) This assertion is not necessarily appropriate. If the above-mentioned important differences between the whole-people owned and collectively-owned systems exist objectively, then you cannot just discuss their similarities and ignore their differences. The aspect of the differences is precisely what forms the basis for the leading position of the state-owned economy. If you equate the collective ownership system with the state ownership system, and even go so far as to consider that the collectively-owned system is superior, then the "upholding of the public ownership system, and can hardly be said to be compatible with either the realities of China or the principles of socialism. In Lenin's opinion, "whether you directly or indirectly legalize the rights of ownership of factory or industrial workers over that factory or industry, or weaken or hinder their lawful rights of ownership over the political power of the state, you are in both cases effecting a great distortion of the basic

principles of the Soviet regime, and completely abandoning the principles of socialism." (Footnote 4) (Lenin: "On the Democratic System and Socialist Nature of the Soviet Regime," "Manuscripts of Lenin," Vol 3, p 79) It would seem that this reasoning is by no means out of date. In the present period, if we change the state ownership system into a collective ownership system, then the state will have difficulty in controlling and leading the entire national economy, and in ensuring that the collective economy advances along the socialist road.

When we emphasize the leading position of the state-owned economy, we are by no means belittling the importance of the collective economy, still less are we negating the inevitability and length of its existence. Of the people in our country, and in particular the 80 percent who are peasants, the vast majority are laboring and living in collective enterprises, and there are also in excess of 25 million urban people working in the collective economy. The important position occupied by the collectively-owned economy in the national economy cannot be ignored. However, the existence of large numbers of collective enterprises in our urban and rural areas, on the one hand, shows that China's industry, agriculture, and science and technology are at a low level of modernization and, on the other hand, that the relations of production of the collective ownership system are commensurate with its forces of production, and able to promote these forces of production, so, therefore, it is also superior. Looking at the real situation of our country, to effect a high degree of socialist modernization in all the sectors and production units of our national economy, and especially to bring about agricultural modernization, is by no means something which can be done overnight. Therefore, the existence and development of the collectively-owned economy in our urban and rural areas is definitely inevitable and will be long term. If we deny its inevitability and long term nature, we will make the historical mistake of "transition through poverty." So we should always make sure we keep a clear head; however, to have a clear head, we must be able to make a scientific prediction about the future. With the development of the cause of modernizing industry, agriculture, and science and technology, the level of the social forces of production will constantly rise, and once the state-run industry develops to an extent whereby all the material conditions to satisfy all the needs of the modernization of the collective economy have been prepared, and once the collective economy itself has passed through a protracted development and enhancement, and has accumulated enough, so that the internal material conditions for its modernization of the collective economy will become a reality. If on the basis of modernization and socialization the labor productivity and the income level of laborers in the collectively-owned economy are no longer any different from those of the whole-people owned economy, then the development of the collective economy into the whole-people owned economy is also a sort of historical inevitability. Therefore, the historical process of our country's socialist modernization from now on will be a historical process of upholding the leading position of the state-owned economy and, under these conditions, promoting the modernization and socialization of the collectively-owned economy, gradually developing it toward the whole-people owned economy. This "traditional viewpoint" is a Marxist one, and is in line with the objective laws of the development of our country's socialist economy.

2. Only by Affirming the State Ownership System, or the System of Ownership by the Whole People, can We Keep the Leading Position of the State Economy

There have been all sorts of state ownership systems in history; the nature of the state dictates the nature of the state ownership system; the capitalist state ownership system is a system of ownership by the capitalist class, because the state belongs to the capitalist class. Our socialist state belongs to the whole people, so our constitution states that "state ownership equals ownership by the whole people." If we negate this point, then we cannot possibly uphold the leading position of the state-owned economy.

Some comrades consider that "the system of ownership conceived of by the classical Marxist writers can only be established when the whole of social development arrives at the state where it is a unified unit of production and distribution. What we generally refer to as the system of ownership by the people is not a system of ownership by the whole people in the scientific sense, but is in fact a socialist state ownership system." (Footnote 5) (Fang Sheng: "On the Socialist State Ownership System," GUANGMING RIBAO 2 Feb 1980) This was not necessarily what the classical Marxist writers envisaged. In their "Manifesto of the Communist Party," Marx and Engels said: "The Proletariat will use their own political domination to step by step expropriate all the capital from the capitalist class, and concentrate all the tools of production into the state and the hands of the ruling class, the Proletariat." The "tools of production" here refer to "all the capitalist class." Which does not of course include the tools of production owned privately by the laborers themselves. It is because of a fundamental principle of Marxism is that only the expropriators must be expropriated, not the laborers. "The development of the whole of society arrives at a stage where this society becomes a unified unit of production and distribution"; this is the ultimate point of what Marx and Engels envisaged as the system of ownership by the whole people, not the starting point. It is because capitalist societies which do not contain any other private ownership system outside the capitalist private ownership system do not exist. Engels said: "We do not have to wait until we see the extreme form of expression of the result of the development of capitalist production, until the last small artisan and the last small farmer have become the sacrifices of capitalist mass production, before we realize this transformation." (Footnote 6) (Engels: "The Peasant Question in France and Germany," "Selected Works of Marx and Engels," Vol 4, p 312) "When we grasp the political power of the state,...our task toward the small farmers will be primarily to turn their private production and private possessions into cooperative possessions and cooperative production." (Footnote 7) (Engels: "The Peasant Question in France and Germany," Ibid, p 310) The "cooperative possessions and production" referred to here are naturally our cooperative or collective ownership system economy. From this, we can see that what the Marxist classical writers envisaged was this: After the Proletariat grasps political power and expropriates all the capital of the bourgeoisie, and consequently establishes a state ownership system, there is bound to ensure a stage in which the state and collective ownership systems coexist. Since the cooperativization of the individual economy and the socialization of the collective economy both require a process, the length of time for which the state-owned economy will coexist with the different forms of economy like the collective and individual economy is bound to depend on the concrete conditions of the

country in question. During this period of coexistence between the various economic forms, is the state ownership system a system of ownership by the whole people? Marx pointed out: after its expropriation of the whole of the capital of the bourgeoisie, a state under the dictatorship of the Proletariat will be such that "this wealth is no longer private wealth split up between various producers, but wealth belonging to producers who have linked up and, therefore, direct social wealth." (Footnote 8) (Marx: "DAS KAPITAL," Vol 3, People's Publishing House 1975 edition, p 494) This direct social wealth is without a doubt a system of ownership by the whole people.

To put the socialist state ownership system in opposition to the system of ownership by the whole people, and to say that the state ownership system is not the same as the system of ownership by the whole people is incorrect. In the present period of our country's socialist development, the system of ownership by the whole people can only take the form of a state ownership system. Marx pointed out: The Paris commune's "real secret lay in the fact that it was really a working class government, it was the result of the struggle between the producing class and the owning class, and it was the ultimate manifestation of a political form which was able to give the laborers economic liberation." (Footnote 9) (Marx: "The Civil War in France" "Collected Works of Marx and Engels," Vol 17, p 361) It is impossible to imagine that in the present socialist period in China, the state can wither away, and that system of ownership by the whole people need not take the form of the state ownership system, but can consolidate and develop by itself, and make the collective and individual economies progress along the socialist path. Our people's democratic dictatorship, or dictatorship of the Proletariat, and its primary economic basis--the state ownership system--are without a doubt the decisive political and economic conditions for the establishment in our country of perfect socialism, and this is why it is in the most fundamental interest of the entire people of our country.

One argument holds that our "state ownership system of the means of production does not constitute the right of the laboring masses to directly grasp them, but the right of government organs under the leadership of the CPC to grasp them on behalf of the laboring masses," and that the laboring masses are by no means directly linked with the means of production, but can only combine with them by passing through the government organs lead by the CPC, and the cadres whom those organs employ. Under these conditions, the state and the state ownership of the means of production are in a certain sense a sort of alien force to the laboring masses." It is, therefore, considered that rights over state and public ownership are not in the hands of the laboring masses, but in "other people's" hands, while the laboring masses "are only legal owners and formal masters." (Footnote 10) (Hou Yufu: "On the Inevitability and Protracted Nature of the Existence of the Urban Collective Economy," [XUE SHU YUE KAN] "ACADEMIC MONTHLY," No 5, 1980) This concept is not appropriate. Engels pointed out that it was only in capitalist countries that "the means of production and subsistence are bound to be capitalist in nature; this inevitability stands like a specter between these materials and the workers. It is this inevitability alone which stands in the way of unity between the material and human levers in production." (Footnote 11) (Engels: "Anti-Duhring," "Selected Works of Marx and Engels," Vol 3, p 317) This is precisely the meaning and

nature of what Marx and Engels said stood between the unity of laborer and means of production. But our socialist state ownership system is the negation of the capitalist state ownership system; it already has eliminated the "specter standing between the means of production and the worker, and the laborers are the masters of the means of production. This is precisely what Marx and Engels meant by the direct link between worker and means of production. How can we say that "the state and the state ownership of the means of production are in a certain sense a sort of alien force to the laboring masses?" Of course, in the course of the past construction of socialism, our party, state organs and state cadres made mistakes, and bureaucratism existed; the state's political and economic systems are not yet complete, and have all sorts of problems, which to a certain extent hinder the people from exercising their democratic rights, and are, therefore, in need of reform. But in the end, the party, the state, the state cadres, and the state ownership system constitute the political and material forces with which the laboring people build socialism, and are not an "alien force."

Of course, due to the existence of diverse economic forms, there are still differences between industry and agriculture, and between town and countryside; the conditions are a long way from being ripe for a perfect system of ownership by the whole people, that is, the ownership by society of all means of production, and, therefore, in the present state, the system of ownership by the whole people cannot be a perfect one, but because of this, we cannot negate the nature of the socialist state ownership system, that is, the system of ownership by the whole people, in the present stage.

First, because the state belongs to the whole people, the rights of ownership over the means of production under the system of state ownership naturally belong to the whole people as well, and not to any one individual or social group; neither do they belong to the various working masses in the state-run enterprises. Therefore, the sole aim of state-owned enterprise production can only be to satisfy the needs of the material and cultural lives of the people throughout the country, and the use by any individual or social group in any form of the means of production, products or income of state-owned enterprises to serve the interests of any individual or group constitutes a destruction of the state ownership system and, therefore, an invasion of the interests of the whole people, and is illegal.

Second, because the socialist state is the formal representative of the whole society, and a collective manifestation of socialism in one form of organization, it has unified and supreme rights of administration over all state-owned enterprises; the autonomy of all state-owned enterprises is relative, and must be subordinate to the unified, supreme management rights of the state. The constitution stipulates that the organ of state with the supreme power is the National People's Congress. The whole people manage the state and the state-owned enterprises through the NPC at national and local levels. The direct administrative rights enjoyed by staff and workers in state-owned enterprises over those enterprises does not mean to say that state-owned enterprises are owned only by the working class; it means only that these workers have administrative rights linked to the responsibility system.

Third, because in the total product of state-owned enterprises, according to the structure of its value, of C plus V Plus M [terms not explained], the working class only gets V, while C and M (apart from that portion of M which, depending on state policy regulations, is kept by the enterprise itself), belong to the state. That is to say, the wage income of state-owned enterprises staff and workers is not distributed according to rights of ownership of the means of production, but according to work; what is distributed is only the means of subsistence for each individual, not the means of production and net income. The working class unconditionally surrenders all of its surplus labor product to the state, and the state conducts redistribution according to the interests of the people of the whole country. Redistribution is carried out with the aim of developing the whole country's national economy, culture and education, science and technology and national defense. Since the founding of the country, over 80 percent of the national financial income has come from the profits and taxes from state-owned enterprises. From 1952 to 1980, the total sum of financial expenditure by the state for the development of agriculture amounted to 188 billion yuan, (Footnote 12) ("China Economic Yearbook 1980," No IV, p 149) of which the main part was used to subsidise collectively-owned agriculture.

These three points alone are sufficient to show that the state ownership system is by no means a "working class ownership system," but a system of ownership by the whole people.

3. The Maintenance of the Planned Economy as the Main is the Decisive Condition for Keeping the Leading Position of the State Owned Economy

The planned economy is the basic characteristic of the socialist economy. Lenin said: "Without a planned national organization which makes the hundreds of thousands of people comply with a strict unified standard in the production and distribution of products, socialism cannot possibly be envisaged," (Footnote 13) (Lenin: "On the Naivete and Petty Bourgeois Nature of 'Leftism,'" "Selected Works of Lenin," Vol3, p 545) But under the actual conditions of socialism in its present stage in our country, because the social forces of production have developed to only a fairly low level and in an unequal manner, and because of the coexistence of diverse economic forms, it is not only impossible to "eliminate" commodity production and exchange, but it is also necessary to further develop this commodity production and exchange; because state planning cannot yet reach a high scientific level, it is also impossible to embrace everything, or to comply wholly with actual conditions, and so the CPC Central Committee, seeking truth from facts, has proposed the principle of "the planned economy as the main, with readjustment by the market mechanism as secondary" to guide the development of the entire nation economy. To this end, at the 12th CPC National Congress, Comrade Yu Yaobang further pointed out that "our country conducts the planned economy on the basis of the public ownership system. Planned production and circulation constitutes the main body of our national economy. At the same time, we will permit a portion of products to be produced without planning, but instead regulated by the market; that is to say, according to the specific conditions obtaining during different periods, within certain limits prescribed by the state plans, the law of value will spontaneously play its own regulating role. This portion acts as a supplement to the planned production and circulation; it is subordinate, secondary, but

also necessary and beneficial. Through overall balancing by economic planning and regulation by the market mechanism, the state ensures the proportional and concerted development of the national economy." In our present economic system, the principle of the planned economy as the main and regulation by market mechanism as secondary has been proven to work in practice. Of course, in the process of reforming the economic system from now on, these principles will be enriched and developed through practice.

Since the 3d Plenary Session of the 11th CPC Central Committee, there has been much debate in economic circles concerning planning and the market. One argument demands that under mandatory planning, "the whole of the national economy should be reorganized according to the principles of commodity economy, and the state-owned economy should be reorganized first." (Footnote 14) (Hou Yufu: "On the Inevitability and Protracted Nature of the Existence of the Urban Collective Economy," [XUE SHUE KAN, No 5, 1980] This is to demand that the whole of the national economy, and first the state-owned economy, take regulation by the market mechanism as the main. If the state-owned economy and the whole of the national economy were to be reorganized according to this concept, it would inevitably lead to the elimination of the planned economy and the loss of the leading position of the state-owned economy, and would, therefore, in turn lead inevitably to the disintegration of the socialist system of public ownership. Over the past few years, the experience of expanding the autonomy of certain pilot state-owned enterprises has shown that leaving aside the question of whether or not you eliminate the state mandatory plans, if enterprise autonomy is expanded to an inappropriate extent, all sorts of anarchic situations can appear, such as loss of control over investment in capital construction. It can be seen that the debate over whether the planned economy or regulation by the market should be the main is in fact a question of how we understand the nature of the reform of socialist production, and of how we understand the nature, scope and function of commodity production and exchange under conditions of the coexistence of diverse economic forms. Marx clearly pointed out: "Commodity production and exchange are phenomena which can obtain under vastly different production forms, though they may differ in the aspects of scope and function. Therefore, if we only know the abstract categories of commodity circulation commonly held by these forms of production, we will still be basically unable to understand the different characteristics of these forms of production, and will be unable to make an assessment of them." (Footnote 15) (Marx: "DAS KAPITAL," Vol 1, p 133 note 73) since commodity production and exchange are linked with different forms of production, they will inevitably reflect different relations of production, and their natures, characteristics, scopes and functions cannot but be regulated and controlled by these different forms of production relations. Therefore, we cannot investigate the present commodity economy in isolation from the nature and characteristics of the socialist production relations obtaining in the present stage in China. Since the bases of the socialist relations of production in the present state are the system of ownership by the whole people and the collective ownership system, the public nature and characteristics of these two systems of ownership regulate the nature and characteristics of commodity production and exchange, and conversely, commodity production and exchange cannot but be the reflection of the production relations of these two systems of ownership, and, therefore, must be different from all commodity relations in previous socialist periods; since

planned economy is the characteristic of the socialist mode of production, commodity production and exchange cannot but be linked with planned economy, and be regulated by it. Since the system of ownership by the whole people has not yet reached all spheres of the national economy, and there continue to exist commodity production and exchange under diverse economic forms, this cannot but be commodity production and exchange under a system whereby the state planned economy is the main and regulation by the market mechanism is secondary, and, therefore, the law of value plays its own role in different forms at different levels of production and exchange within the whole of the national economy. But people can consciously and in a planned way utilize it to achieve their own aims, and quicken the pace of our socialist modernization. If we fail consciously to understand it, or utilize it, or if we violate it, or deny the controlling function of the leading planned economy over commodity production and exchange, but instead cast ourselves entirely on spontaneous market regulation, then it will be difficult to avoid the appearance of anarchy in social production. Comrade Chen Yun put it well when he said: "It is just like the relationship between a bird and its cage; you cannot keep a bird in your hand, because it will die; you must let it fly, but you can only let it fly within a cage; without a cage, it will fly away. If we say that the bird is the enlivening of the economy, then the cage is the state plan." (Footnote 16) (RENMIN RIBAO 3 Dec 82) In the present period, state mandatory plans constitute the leading part of the national economic plan, and the main lever by which the state-owned economy controls the national economy. Therefore, we cannot abandon state mandatory plans. This by no means excludes the guiding plans from exercising their own function within appropriate limits. But under no circumstances can we let the law of value dominate everything spontaneously; we must instead combine the planned economy with the law of value, letting the law of value play its role under the control or guidance of planned economy.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON ACCOUNTING SYSTEM IN WEST, EAST

HK261151 Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 83 pp 50-53, 38

[Article by Zian Bohai [6929 0130 3189] of the Xiamen University Economics Institute: "Correctly Understand the Production, Distribution and Utilization of the Social Product and the National Income"--dated October 1982]

[Text] The process of production is the process of reproduction, and when we are considering the production, distribution, and utilization of the social product and the national income, we must make it clear that production, distribution and utilization are all part of one composite body, and whatever the scale of production, this will be the scale of distribution and utilization. This is the way things are done the great accounting systems of both of East and West, but in theoretical circles, there exist many confusions and misconceptions regarding the issue. This article will put forward some initial individual opinions regarding the correct understanding of this question.

Production, Distribution and Utilization Form One Composite Body

The national economy is a complex body which can be broadly categorized into two parts; one is the production sector, and the other is the nonproduction sector. The production sector is involved in production activities, and from its results of the production sector are utilized can utilization be said to take place. If imports, exports and losses are not taken into account, the utilization of production results can only go in one of two directions; one is utilization for the production of the production sector, which is generally referred to as intermediate consumption, and the other is utilization for production consumption and expanded reproduction, which is normally called ultimate utilization. Therefore, if the value of the total social product is C plus V plus M , the utilization value is S the sum of the total means of consumption and the total means of production. After deduction of intermediate consumption, the total social product is the net social product, which is also called the national income; its value is equal to V plus M , and utilization value consists of all the means of consumption used for accumulation plus the means of production for expanded reproduction.

On the other hand, regarding the activities of the nonproduction sector, because they cannot be counted as production, the use of their results cannot be classed as utilization, and is generally called redistribution. Distribution includes initial distribution and redistribution, and, like exchange, forms a

middle link between production and utilization. Without production, there is no distribution or utilization. Production, distribution and utilization are quantitatively identical, and constitute the concrete manifestation of the fact that the production, distribution, and utilization of the social product form one composite body.

If we examine the process of reproduction, there is a great difference between Eastern and Western countries, which form two accounting systems. The major difference between them lies in the ways in which they define the scope of production, or a difference in their calculation of production value. Some calculations are wide, some are narrow. The wide school and narrow school referred to in the discussion of productive labor in our country's theoretical circles are closely connected with the wide and narrow calculation of output value, and will not be discussed here. But it must be emphasized that both the wide and the narrow schools must abide by the principle that production, distribution, and utilization form one composite body.

The method of calculating the results of production in our country belongs to the Western accounting system, and considers that only the five sectors which take part in material production--industry, agriculture, construction, commerce and the transportation of commodities--constitute production sectors, so that output value is calculated only in terms of the results of these five sectors. The gross social production value consists of the sum of the total output value of these five sectors, of which industry, agriculture and the construction industry directly create utilization value, while commerce and goods transportation, though they do not create new utilization value, increase the value of the reproduction of products, and therefore the gross social output value can be understood as the sum of the final calculation of the value of the products of industry, agriculture and construction. Since the five sectors are said to produce output value, any utilization of the results of the production of these five sectors must be said to be utilization. What is used for production is called intermediate consumption, and what is used for consumption and accumulation is calculated as ultimate utilization. Departments other than the five commodities sectors, including culture and education, health and hygiene, tourism and state administration, are collectively known as nonproduction sectors; though they do not produce material results, they provide all sorts of services for citizens, for production sectors, and for nonproduction sectors, like cultural, educational and health services, and so on; none of these services is calculated in our country as output value, and neither does the enjoyment of them count as utilization, but is instead generally referred to as redistribution of the national income. This category of redistribution is both general and abstract, and will be discussed specifically later.

In the West, based on the utilitarian theory of vulgar economics, it is considered that use is the basis of value, and all labor which can create use is counted as productive labor. In addition to the five material production sectors, all service sectors, national administration, and even the army, police and judiciary provide use, and are therefore counted as production sectors, and their output value calculated. Though this concept is worthy of criticism, they still uphold the principle that production, redistribution and

utilization are one composite body when making their calculations. Since the production sectors have expanded, the scope of utilization, are expanded commensurately. Rewards and services defrayed by material production sectors are all counted as intermediate consumption, and only services used by citizens are calculated as ultimate utilization. Therefore, from an overall point of view, the national production goals of the West, because they include a large amount of service value, must be much larger than those of the East; for example, in 1980, the national income of the United States, which was stated to be \$2,180.4 billion, because it included service value, was 40 percent higher than what it would have been had it been calculated along the lines used in our country. But if only the national income from the five material production sectors was examined, and calculated according to Western Methods, then you would have to deduct not only material consumption used in production from the total output value of these five sectors, but also all the different payments for services used in production, like travelling expenses, medical expenses, and so on. If the total output value of the five big sectors was the same, intermediate consumption would expand, and therefore the national income derived from the five big sectors, calculated along Western lines, would be much smaller than if calculated along Eastern lines.

Various Misconceptions Often Encountered

The basic reasoning described above is by no means abstruse, still less is it hard to understand, but the failure to see production, distribution and utilization as one composite body, or the confusion of the two methods of calculation, leads to some unnecessary misconceptions in theory:

1. Accumulation and consumption expenditure are seen as accumulation and consumption funds. Accumulation and consumption are two aspects of the ultimate utilization of the national income, and the proportion between accumulation and consumption constitutes a strategic ratio in the proportional relations of the national economy. Political economic textbooks all emphasize the extreme importance of this point, but the problem is that in our country, almost all of these textbooks, including the newly published translation of the Soviet political economic textbook "Political Economic Dictionary," confuse the two concepts of accumulation and consumption funds; some use charts to explain this, such as:

National Income

I. Consumption funds

II. Accumulation funds

1. Social consumption funds

- a. State administrative funds, used for expenses in the areas of financial administration, national defense, and so on; culture, education, and health funds, used for expenses in the fields of science, culture, education, health, and so on; social insurance funds, used for expenditure in the areas of the needs of those who have lost the ability to work, social relief, and so on.

2. Individual consumption funds, labor reward funds for productive laborers

Obviously, this is a serious misunderstanding; in our country, only material production counts as production, and therefore only consumption of material products counts as consumption. Consumption funds refer to the total sum of material products consumed for the use of individual citizens and social groups over a set period of time (usually a year). In the above chart, expenditure on state financial administration, national defense, science, culture, education and health all include many different kinds of economic content; some purchase materials for consumption in all sorts of areas; some give them as rewards to people in all the different sectors, giving them back to the people; some is used as payment for services, and is therefore income for service industries; and some is handed over to the state as profits and taxes, making up part of the state's financial income. Of all these sorts of expenditure, only expenditure for purchases of goods and materials can be counted as consumption funds, while the other expenses are all part of redistribution. Income is respent and expenditure becomes income. If social insurance funds and remunerations for productive laborers are returned to the ownership of individuals, they still by no means constitute consumption funds; a substantial part of them is used for expenditure on service payments, deposits and compulsory dues, which become part of the income of service industries and financial and credit departments, while these service, financial and credit departments will use this income for all sorts of redistribution expenditure. It can be seen that if consumption expenditure is taken to be consumption funds, great miscalculations will be made. Only goods and materials used for the consumption of nonproduction departments and individual citizens are genuinely consumption funds.

In the same way, accumulation expenditure cannot be equated with accumulation funds. Only those goods and materials used for accumulation by the various departments, including individuals (normally reflected in the increase of fixed and liquid assets in any 1 year) can really be counted as accumulation funds. The national income is the sum of accumulation funds and consumption funds.

If we equate accumulation and consumption expenditure with accumulation and consumption funds, we are going to make large miscalculations, and are bound to make accumulation and consumption expenditure greater than accumulation and consumption funds. This is something which may have appeared in the newspapers: "In this way, in distribution, the sum of accumulation and consumption exceeds the national income." The above is the reason for this abnormal conclusion.

2. Production capital is seen as C plus V. In the structure of the total social product, C equals material consumption, V equals the net income of laborers, and M equals the net income of society, including the taxes and profits handed over to the state by enterprises, and the capital which they retain. C plus V equals the consumption of materialized and living labor in production, which is generally referred to as production capital. In fact, C plus V is by no means the same as production capital; it is always smaller than production capital. Capital is a category of accountancy, and all expenditure in production, whether it be expenditure on materials or nonmaterial expenditure, is all part of capital. C plus V, on the other hand, is a category of economics; C equals material consumption, and only material expenditure in production,

such as that for raw materials, subsidiary materials, and the renewal of fixed assets, and so on, can be counted as C. Expenditures in production such as travelling and medical expenses, road repairing, interest and others, on the other hand, though they are necessary expenditures in production, cannot be counted as C, nor as V; they must be dealt with specially--calculated by production departments in place of output value, as a composite part of the social net income M. If we see production capital as C plus V, we are going against the principle that production, distribution, and utilization are one composite entity, and dealing with services, which cannot be counted as part of the results of production, as part of those results (of course, if this is done to simplify procedures, there is nothing wrong with it). In the Western accounting system, this contradiction does not exist; production capital is C plus V, and in their calculations, whether production or services, all expenditure on production is generally as intermediate consumption and dealt with accordingly.

The Key Is Correctly to Understand Distribution and Redistribution

Production is for the purpose of consumption, and production itself includes consumption. Under conditions of a commodity economy, the links between production sectors are primarily those of exchange, and exchange of equal value is carried out. Commodities change into currency, currency changes into commodities, products are produced and then consumed, and thus operates the cyclical movement of reproduction. The relations between production and non-production sectors, and between different nonproduction sectors, are primarily those of distribution; distribution and redistribution is displayed in different ways in different sectors, but they have common features, and to grasp these common features is the key to understanding correctly the production, distribution and utilization of the social product.

1. Distribution is the distribution of the power to utilize the results of production, and the difference between the income and expenditure of the various departments' redistribution. In our country, only material departments are production departments, and only distribution of the power to utilize material products is distribution. The amount of income finally formed (usually over 1 year) after distribution and redistribution is called ultimate income, and this ultimate income is that part of income used to purchase material products, and is commensurate with the amount of goods and materials actually used by the various departments. This is manifested specifically as follows:

The ultimate income of material production departments is equal to initial distribution income plus redistribution income minus redistribution expenditure.

The ultimate income of citizens is equal to initial distribution income plus redistribution income minus redistribution expenditure.

Material production departments create national income, and through initial distribution, gain social net income M. They hand over profits and taxes to the state, pay interest, and so on, and thus carry out redistribution expenditure, and having gained financial loans and other redistribution income, arrive at their ultimate income. The redistribution expenditure of production departments will definitely be greater than their redistribution income, and they will give the utilization rights to some other departments, to ensure the needs of the development of nonproduction departments.

Nonproduction departments do not participate in the production of goods and materials, so there is no question of initial distribution; they rely mainly on financial loans, income from payment for services, and other redistribution income to act as redistribution expenditure on such things as labor wages and payment for services; their redistribution income is bound to be greater than their redistribution expenditure, and their ultimate income will be spent on purchasing various goods and materials for consumption in their normal activities.

The citizens have two natures; they are both the main part of production, and the main part of consumption. The citizen gains his initial distribution income from production departments; this is V. He also gains labor rewards from nonproduction departments, and enjoys all sorts of social welfare, which makes up his total income. By no means all of this is used for the purchase of goods and materials; he must pay for services, deposit money, and pay compulsory dues, so his redistribution expenditure will definitely be smaller than his redistribution income.

It can be seen that redistribution and distribution are manifested in different specific ways in different sectors, but all go through redistribution of income and expenditure; material production departments will have a greater redistribution expenditure than their redistribution income, while the opposite will be true both on nonproduction departments and of citizens. Looking at the whole of society, the figure representing the difference between the income and expenditure of all the various departments will be zero. Distribution and redistribution neither increases or decreases wealth, but is merely the shifting of the utilization rights over material products.

Here, some people may perhaps make the following refutation: if financial departments increase loans, and go into the red, then redistribution income will be made greater than redistribution expenditure, and the margin will no longer be zero. This is also a misunderstanding. If financial deficit distribution is carried out, it is bound to have some direction, such as issuance of wages in excess of capacity, an increase in the income of citizens, and expansion in the consumption needs for goods and materials. There are three possible ways of solving this contradiction. One is to shrink commercial reserves, and to increase the supply of products to society; consumption funds will have increased, and citizens will be able to buy more goods, but commodity reserves are an integral part of accumulation funds, so to reduce reserves is to reduce accumulation funds, with the result that the total quantity of supplyable goods and materials for accumulation and consumption will remain unchanged. The second is to fail to increase the supply of commodities, so that citizens will increase their quantity of cash or their deposits; cash funds and deposit funds in banks will increase, and their nature will be the same; they are both a form of redistribution, to be loaned by the banks as credit to industrial and commercial departments. Financial expenditure is greater, so bank income is greater, so the difference between redistributed income and expenditure remains at nil. This situation is abnormal, and should be taken seriously. The third way is both to ensure the supply of commodities, and not to decrease reserves and thereby influence accumulation; the only way of doing this is to increase the price of products, so that the same quantity of goods will bring in more currency. But with the increase in the price of goods, and the increase in commercial profit, the boat will rise with the water, and the total amount of national income expressed in currency will also

"increase," such that distribution and redistribution will still be carried on within the sphere of the national income production level. Obviously, this false method cannot be adopted, because it leads to all sorts of maladies.

2. There are many forms of distribution. They change with the changes in the scope of production. They may be generally designated as labor income and expenditure, financial income and expenditure, credit income and expenditure, service income and expenditure, some other basic forms which arise as a result of redistribution through price adjustment, and so on. According to the state financial policies and stipulations, material goods are moved to the relevant departments for their use, through single or repeated distribution. Of these forms, service income and expenditure is a relatively special redistribution of income and expenditure; all service departments, if they are to develop their services, must consume a certain amount of goods and materials, but the use of these materials by service departments is not an aim in itself, but instead, through the special form of collective consumption which constitutes service, the goods and materials which are thus consumed are shifted to all the departments which enjoy their services. It is like the fuel consumed by a passenger ship; though it appears to be consumed by the passenger ship department, in fact, through the income from the tickets bought by the passengers (if there is financial subsidy, then it is equal to state purchasing), it is shifted to all the departments which enjoy the services of the ship. Therefore, in addition to directly using goods and materials, each department should add to this the goods and materials it consumes indirectly through its use of the services of other departments. This is obviously too complicated, and not necessary, so service departments are normally taken as independent departments using goods and materials. Because of the great bearing which the quantity and quality of service departments such as culture, education, health and travel have on the standard of consumption of the public, in order fully to reflect this standard, the general practice is to add the materials and goods consumed by service sectors to the goods and materials consumed by the individual citizens, to calculate the average level of consumption of the general public.

If service departments grow to become production departments, the situation changes entirely. The calculated output value of service departments, and the expenditure on goods and services of these service departments, must all be counted as intermediate consumption, while the expenditure on service payments paid by the original production departments to the service departments must also be counted as intermediate consumption. The redistributive relations of the income and expenditure of service departments become commodity exchange relations between two production departments. The distribution carried out among service departments is called initial distribution, and therefore greatly reduces the scope of redistribution. In the West, apart from shifted expenditure like government welfare, price subsidies, and so on, which are counted as redistribution, other expenditure is all counted as initial distribution. Even some of the compulsory indirect taxation paid by enterprises to the government is also seen as the same thing as expenses paid by enterprises to the government for services, and indirect taxation is seen as a form of intermediate consumption; just as Samuelson said: "To capital which constitutes a production factor, such as wages, interests, rents and profits, all indirect taxation of enterprises must be added; this indirect taxation is also a sort of production

expense which is reflected in the quantity of goods in circulation." (Footnote 1) (Samuelson: "Economics," Commercial Press, Vol 1, p 269) That is to say, in the Western accounting system, there is very little redistribution income and expenditure.. In our discussions of the Eastern and Western accounting systems, some people take redistribution in a relatively abstract and general way as their reasoning, and propose the adoption of the SNA accounting method.

The correct understanding of distribution and redistribution is the key to the correct understanding of production, distribution and utilization. Income supplied in the form of initial distribution is called original income, while that supplied through redistribution is called derived income. We have so far come to the following conclusion:

/The output value goal is calculated within whatever sphere is designated for production, and this sphere forms the limit for calculating intermediate consumption and ultimate utilization, and also the dividing line between initial distribution and redistribution, and between original income and derived income./
[Passage within slantlines published underlined.] If we examine the quantity of the social product and the national income according to this basic principle, we will eliminate this sort of confusion and misunderstanding in theory and in practice.

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NATIONAL POLICY AND ISSUES

NATIONAL UNITY ESSENTIAL FOR ECONOMIC CONSTRUCTION

OW200546 Beijing Domestic Service in Mandarin 1200 GMT 19 Sep 83

[Station Commentary: "Unity Among People of All Nationalities is Most Important for Economic Prosperity"]

[Text] The meeting sponsored by the Nei Monggol Autonomous Region to commend the advanced collectives and individuals who have distinguished themselves by promoting unity among people of all nationalities has been victoriously closed. We congratulate its great success. The meeting certainly will have a far-reaching influence on enhancing such socialist concepts--equality, solidarity and mutual assistance--relations among people of various nationalities, and on creating a new situation in all fields of socialist modernization in Nei Monggol.

Strengthening national unity is important in China, which is a multinational country. Not long ago, Hu Yaobang, Zhao Ziyang and other leading comrades of the central authorities inspected Nei Monggol, Qinghai, Gansu and Xinjiang. The fundamental concepts of the important speeches they made there can be summarized as follows: First, unity among people of all nationalities must be strengthened; second, economic construction must be accelerated.

Unity and construction are two things that are mutually related and that complement each other. Only when unity among people of all nationalities has been strengthened can economic construction be accelerated, and only when economic construction is sound can there be a strong material groundwork for national unity.

The four basic principles are the ideological and political foundation of national unity. In essence, that means that we must remain politically and ideologically at one with the party Central Committee. This, in addition to being the basic guarantee for safeguarding our motherland's unification and strengthening unity among people of all nationalities, is where the fundamental interests of people of all nationalities in our country lie. For that reason, cadres and people in all areas inhabited by people of minority nationalities must study earnestly Marxist and Leninist theories on nationalities as well as the party's nationality policies; leading cadres at all levels must strive to do a good job in handling nationalities affairs, and all cadres and people must exert common efforts to consolidate further the relations of mutual dependence among people of all nationalities so as to contribute to building prosperous and thriving regions inhabited by national minorities.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON COMMERCE GUIDING PRODUCTION

HK261104 Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 83 pp 61-64

[Article by Lin Wenyi [2651 2429 4135] of the Trade Department of the China People's University, Jia Lurang [6328 1462 6245] of the Institute of Finance, Commerce and Commodities Economics of the Chinese Academy of Social Sciences, and Yu Jun [0060 0689] of the Economics Institute of the Chinese Academy of Social Sciences: "Give Full Play to the Active Role of Commerce in Guiding Production"--dated March 1983]

[Text] In his report to the 12th National CPC Congress, [sentence indistinct] conscientiously improve commercial work,...giving full play to the role of commerce in promoting and guiding production, ensuring supplies and expanding the economy." This summary of the reaction of commerce to production under socialist conditions as a promotional function, and the proposal to enhance the extent to which commerce guides production, represents a great theoretical breakthrough, and the summary of our experience in socialist construction over the last 3 years.

In our opinion, "guiding production" indicates that the reaction of commerce on production cannot be a question simply of promoting from behind, and pushing forward the development of production, but that it must at the same time pay particular attention to leading from the front, guiding production along the correct path of development. This so-called correct path of development implies that production must be led along the developmental path stipulated by the goals of socialism, and that under this general premise, it must be guided to meet the needs of the market; it must be guided from self-sufficient production to commodity production, and from low-stage commodity production to high-stage commodity production, and grow to a developed state; production must be guided along a road of planned proportionate development; it must be guided to constantly enhance economic results, and to progress toward the goal of socialist modernization.

How, then, is socialist commerce to give play to its function as a guide to production? We think that the following aspects should be considered:

First, Directing Production

Socialist commerce should make use of its authority in the field of market information to influence production from the outside, and give play to its

"guiding" function over production. This means that commerce must turn itself into the main supplier of market information, and promptly reflect this information to the organs and planning departments which lead production. Of course, different methods must be adopted to treat different parts of production. For instance, with regard to the part of production under mandatory plans, commerce must not only actively reflect to the state changes in market conditions and analysis data, thereby providing a strong basis for the formulation and adjustment of plans, but must also provide ample market information to producers in the process of the arrangement of varieties and specifications, the coordination of production and marketing, and the signing of contracts, so as to enable producers to adapt to consumption in terms of type and specifications of goods in their specific arrangement of production, and to facilitate the implementation of state plans. As regards production units under guiding plans, on the other hand, commerce must, on the basis of the demands of the state's unified planning, sum up market conditions from its own knowledge of them, and on the basis of consultation, organize with the production units the dovetailing and balancing of production and marketing plans, so as to make production conform to the demands of the unified state plans and adapt to the needs of the market. As for the part of production concerned with market readjustment, socialist commerce must, on the basis of the demands of state policy, and under the guidance of unified state plans, use market information as its main basis to make regular or irregular market projections, supplying market information directly to the producers and thereby effectively guiding them [to] organize production according to the changing tendencies of supply and demand.

Second, Intervening in Production

As with directing production, intervening in production is a question of influencing production from the outside, and giving play to the "guiding" function, but the strength and extent of this function is greater than the former, and much more profound. It means using the economic levers controlled by commerce to intervene in production, influence it and expand it in a planned way according to the demands of the state and the market, or control its scale of development. This method of "guidance" has an obvious function in production which comes indirectly under state mandatory plans. With regard to the part of production which comes under guidance plans, this practice is able to promote the subordination of producers to the intentions of the state plans, link up with the needs of the market, and rationally organize production. As for production regulated by the market, it can promote rationally the arrangement and organization of production, according to the needs of the market and within the limits of state policies and unified planning, so as to adapt production to consumption.

The main economic levers which may be used by commerce to intervene in production is as follows:

1. Purchasing. Whether goods are purchased or not, how much is purchased, which products are purchased, and what forms and methods of purchasing are adopted, can all, under different conditions and to different extents, influence the direction of the development of production, its scale and structure. Pro-

duction has no power to market certain products itself, and has no way out but to rely on commerce to solve the marketing problem, so commerce immediately has a decisive role in production. Under these conditions, production is only undertaken if commerce agrees to purchase, and not otherwise; production is only expanded if commerce buys more, and shrinks if commerce buys less; if a certain product is purchased, the production shifts to this product, while production is decreased or stopped altogether if products are not purchased. This function is at its strongest when purchases are made with ready money and when they are chosen, and plays a secondary role when orders are placed for goods, and a tertiary function in planned purchasing. The affect of immediate purchasing and chosen purchasing comes after production, and is exercised on the next batch of production; the affect of orders for purchases comes before production, and concerns the question of how to arrange production; as for planned purchasing, its primary role lies in the part of production in excess of the quota, involving the question of how to organize production, and whether or not to produce in excess of the quota. The use of the means of purchasing is able to exercise a function in terms of the quantity produced, which affects the structure, and thereby the expansion or contraction of production, the existence and continuation of production, and the question of whether or not to invest.

2. Supply. Under given conditions, the means of production required for some products, and particularly the supply situation of raw materials, will be the decisive condition affecting whether production goes ahead or not, whether it expands or shrinks, and the form and structure production will take. In the case of those means of production which are not distributed according to state plans, but which commerce (whether it be materials, commercial, supply and marketing, food, or other commercial departments) has the right to decide how to supply, commerce can utilize supply as a means of intervening in production, and encouraging it to adapt to the demands of the state plans and the needs of the market for commodities. This method is especially clear in the processing industry, compensation trade, and so on.

3. Contracts. Whether contracts are signed for the purchase and sale of large quantities of goods has a bearing on whether the producers' goods have a stable sales outlet, whether their raw materials supply can be ensured, and whether they have financial (such as advance payments) and technological conditions. Therefore, contracts have a great effect on production. The content of contracts includes obligations undertaken concerning the scale of production, its structure, quantity, variety and quality of goods, and so on, and therefore plays a unique role in the implementation of plans, the indirect introduction into that plan of production not directly under the plan, and so on. Precisely because of this, commerce can use contracts as a means of guiding production to suit the state plan and the needs of the market, from the point of view of material benefits, rights and duties.

4. Prices. Price levels (including price rises and decreases, price-rise rewards and subsidies) can encourage and control production, launch it or bring it to a halt. This function is particularly clear outside mandatory plans, and particularly in production outside the plan. Apart from planned prices fixed by the state, in those areas where commerce has the right to float or readjust prices within the limits permitted by the state policy, it can

utilize prices to regulate production, and guide producers to conscientiously implement the state plans, or organize production according to the needs of the market.

5. Award sales. When purchasing important agricultural and sideline products whose supply does not meet demand, consideration is given to the fact that the planned prices are lower than those on the free market, and therefore important industrial or food products whose supply fails to meet demand and which are urgently needed by producers are sold at the planned prices (this is called award selling). This practice allows an exchange of commodities urgently needed by producers, and allows them some price subsidy. In this way, award selling has a function similar to that of prices in encouraging or controlling production. Within the limits stipulated by unified state plans, commerce can use the means of award selling to regulate production, encourage producers to produce more goods whose supply fails to meet demand, high quality products and varieties, and controls production of goods whose supply exceeds demand, and those products and varieties of poor quality. This function is particularly outstanding when it is more important to producers to gain means of production or products than to get good prices.

Of course, the use of economic means to intervene in production can be carried out not only by commercial departments but by financial, tax, banking and pricing departments. By reflecting market information to these departments, commercial departments can assist them in making full use of their function of intervening in production and indirectly guiding production.

Third, Participating in Production

Unlike guiding and intervening in production, participating in production does not influence it from the outside, but adopts forms like investment and cooperative management to enter into production, thereby gaining some right to speak and to make certain decisions concerning production. This means that commercial departments provide funds, goods, materials, technology, and other conditions, thereby helping production departments to develop production, and at the same takes responsibility for purchasing or assisting in the promotion of products, and on the basis of investment or joint management, affirms the demands of production in a contract, or wins a certain right to decide production.

At present, our country has nearly 400,000 industrial enterprises, and over 180 million peasant households. Most of the industrial enterprises are of medium and small scale, while the vast majority of urban and rural collective industrial enterprises are of small scale, as are the vast majority of local state-run enterprises. Since the 3d Plenary Session of the 11th CPC Central Committee, our great rural areas have been promoting the agricultural production responsibility system with the contract system as its main form, and the production of agricultural and sideline products has been undertaken primarily by peasant households, and even commune brigades carry out production on a fairly small scale. This situation has decided that it is possible in our country, with large-scale wholesale commercial enterprises or retail enterprises (like first-class department stores in big cities, and food stores) as the core, to

link up with some small-scale production enterprises concerned with business, and a minority of medium-scale enterprises, and use investment or other economic means to enter into these enterprises, thereby winning some production powers; or, in the rural areas, with supply and marketing cooperatives as the core, while strengthening the contract system and the supply of production means, to promote the sale of agricultural and sideline products, and improve technology, at the same time adopt the means of investment, and use the form of joint operation, to enter into the production of agricultural and sideline products, and win the right to participate in production. Both of these methods are feasible. Demands may be made on these small-scale industrial and commercial enterprises according to the state plans or the needs of the market, so that they carry out production according to processing and ordering forms, and products are sold under the same unified commercial brand name, or under the name of the commercial department supervising their manufacture. This method is particularly appropriate for famous brand name industrial products and high quality foodstuffs. It may also be used in the case of the producers of some agricultural and sideline products. Once supply and marketing cooperatives have begun to participate in production, they must take responsibility for pushing sales. Where necessary, it is possible to start with signing contracts and taking part in production, and develop toward new-type cooperative organizations or agricultural, industrial and commercial combines supported by or centered on supply and marketing cooperatives.

This way of doing things by no means constitutes a regression. As we know, if there is to be division of labor, there must be cooperation. In the history of mankind's socioeconomic development, first came the natural economy's inherent division of labor and combination, then the appearance of the commodity economy broke through this combination, and there arose a new social division of labor and combination. In the development of the social production, division of labor and cooperation also developed constantly, and with the specialization of production and management, in the high level of development of the social division of labor, there appeared a new type of cooperation and combination, like trusts combined from supply, production and marketing, and combined bodies integrating agriculture, industry and commerce. As yet, the economic development of our country has not come to broadly organize the conditions for a high degree of cooperation and combination on the basis of a high level of division of labor; we can take this as a direction for our work, and in the present stage may link up a large number of small-scale production units centered on commerce, so as to facilitate the development of participation in and guidance of production. This practice will not necessarily be wholly abandoned even when we have a widespread social division of labor to a high degree.

Fourth, Organizing Production

Like participating in production, this is a way of deciding production from the inside. What makes it different is that under conditions of participating in production, production units remain in a situation of equality and relative independence as regards commercial units; under conditions of organizing production, on the other hand, production units are entirely subordinate to commercial departments, and become subsidiary enterprises of the latter, working in their service. In fact, this situation is by no means unprecedented. In

the old society, including modern capitalist society, it exists in many commercial trades. For example, in the case of certain products of high quality whose demand and supply situation varies greatly, commerce must possess its own processing units and maintain the characteristics of its management, such as in the case of clothes, accessories, foodstuffs, confectionary, pastries, pickled vegetables, and so on. Under socialist conditions, commercial units can still use this form to organize production directly, so as to guide it.

Production units set up under commercial departments continued to exist after the socialist transformation of the ownership of the means of production, but their situation did not match the development of the whole economy. Especially during the 10 years of internal disorder, mistakes of the "left" meant that the practice of commerce adapting to changes in market needs was seen as a capitalist management practice, and that the maintenance of the special characteristics of commercial management was seen as a stubborn maintenance of the characteristics of "feudal revisionism"; the result was that many retailing factories and factory-type forms were "swept" away, such that many commercial units lost their special characteristics in management, and many popular goods of dependable quality were unable to meet the needs of consumers. Now, with the flourishing development of the economy, and the marked improvement in standards of living, consumers' needs are becoming increasingly complex, there is more and more power for choice, and so demands vary increasingly wisely. This situation requires that commerce be broader, respond more sensitively to the changes in the needs of the market, and do a better job of maintaining and cultivating the special characteristics of its management. To this end, more use must be made of the form of organizing production directly through commerce.

We must not confuse organizing production with arranging production. Organizing production means, under the arrangement of the state unified plan, specifically organizing production in tandem with the needs of the market. This direct organization of production by commerce will not only not destroy the planned economy, but on the contrary, is advantageous to the implementation of the principle of "the planned economy as the main, and regulation by the market as subsidiary."

Direct organization of production by commerce also will not damage social division of labor. The division of labor between industry and agriculture on the one hand and commerce on the other represents a great step forward in socioeconomic development under the conditions of a commodity economy. However, this does not in the slightest exclude, where necessary and possible, the setting up of some other subsidiary economic units which will be involved specially in the function of other departments. It is merely a question of using different specific forms in different stages in socioeconomic development. For example, in the stage at which the commodity economy is not sufficiently developed, the existence in some production units of small-scale sales organs, and of subsidiary workshops, farms or small factories under the jurisdiction of commercial units, will not in the least hinder the former from having production as its main body, and the latter from engaging mainly in commerce. When the commodity economy is developed, on the other hand, for instance in modern capitalist countries, many big industrial and agricultural economic organizations will have their own marketing and purchasing systems (as in the oil, car, aviation, electrical and weaving industries), and in the

same way, many large commercial organizations will have their own subsidiary production enterprises. In this way, these commercial organizations will be helped to occupy the market and control more consumers, while production departments will also find it easier to enhance their economic results. This latter point means that when certain production enterprises are lead by commercial units, they are more economic and win more profits. For example, in developed capitalist countries, a number of steelworks which use scrap iron as their raw material are subsidiary to commerce dealing in the means of production, while many food industry enterprises are subordinate to foodstuffs commerce. This represents the overlapping of production and commerce during the higher stage of development of the commodity economy. Though at this stage production organizations may have a complete marketing network, this by no means hinders the existence of commerce as a special social circulation department; conversely, though commercial organizations may have a complete production system, this does not hinder the existence of industry and agriculture as specialized production sectors. Therefore, these things cannot upset the social division of labor.

The problem at present is that certain wholesale and retail commercial organizations with the conditions to do so must have the courage to break into taboo areas, and set up some subsidiary production enterprises which will be able to maintain and develop the special characteristics of its own economic management, serve the consumers better, and enhance economic results, turning these production enterprises, along with technological and service systems, into a strong backbone for improving and raising the level of commercial management. Of course, this is by no means to say that commercial departments can make the same mistakes as in the past, like taking funds from commerce to run industry. We must set up subsidiary production enterprises under the premise of the planned and proportionate distribution of social funds to the various economic spheres, so as to avoid the serious consequence of commerce being squeezed to carry out production. Otherwise, it will not only be disadvantageous to the development of commerce, but also to the guidance of production by commerce.

Of course, much work needs to be done to bring into full play the guiding role of commerce in production, and a series of conditions must be created. At present, there are two main problems in urgent need of solution: first, the further elimination of the pernicious influence of "leftist" mistakes, and the emancipation of the mind. The key link here is to correctly understand the reaction of exchange on production, and fully affirm in their the inevitability and necessity of the guidance of production by socialist commerce. Second, we must actively carry out the reform of the commercial system, and gradually get rid of those systems which hinder the utilization of commerce's guiding function in production.

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NATIONAL POLICY AND ISSUES

JINGJI YANJIU ON DENG'S MODERNIZATION GUIDELINES

HK271258 Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 83 pp 3-5

[Article by Xu Dixin [6079 3338 2450]: "Great Guidelines for Socialist Modernization--Study 'Selected Works of Deng Xiaoping'"--written 8 July 1983]

[Text] The "Selected Works of Deng Xiaoping" has been published. It is truly a brilliant book in this period of great historical change. Its publication has not only filled the hundreds of millions of people with joy, but has been greeted abroad with tremendous attention and lofty praise. This is definitely not accidental.

When dark clouds were hovering over the sky and storms were sweeping across the land, Comrade Deng Xiaoping boldly came out and appealed to the whole party to consider "pushing the national economy forward" as our party's predominant task. Moreover, after the smashing of the "gang of four," he brought order out of chaos and enabled the focus of the work of the state and our party to be genuinely shifted to economic construction.

Since the 3d Plenary Session of the 11th CPC Central Committee, the most prominent change in our national economy has been in the rural economy. This change is due to the relaxation of our rural policies. The collectivisation of our country's agriculture was correct with regard to its orientation. However, its development was too fast. "An upsurge was organized once every 1 or 2 years. Before the advanced agricultural producers' cooperatives were consolidated, people's communes were organized on a wide scale. Consequently, in the early 1960's, there was an inevitable return to the former situation of having the production team as the basic accounting unit." (Deng Xiaoping: "Selected Works of Deng Xiaoping," "On the Question of Rural Policies," The People's Publishing House 1983 edition, p 276) It was correct to have the production team as the basic accounting unit. However, the fact that egalitarianism in distribution and reliance on propaganda in work organization were regarded as "socialism" unavoidably undermined the enthusiasm in the work of the masses of commune members and affected the development of the rural productive forces. Since the 3d Plenary Session of the 11th CPC Central Committee, egalitarianism has been negated, and responsibility systems, whereby remuneration is linked to output, including the fixing of farm output quotas for each household and the assigning of responsibility to households for task completion, have been affirmed. Consequently, our country's agricultural production has developed vigorously. Some comrades worry about whether this would affect the collective economy. Comrade Deng Xiaoping said: "I think this kind of worry is unnecessary. Our overall orientation is the development of the collective economy. In

localities where farm output quotas are fixed for the households, production teams still constitute the main body of the economy." (Ibid, p 275)

In industry, Comrade Deng Xiaoping put forth his "Several Views on Developing Industry" as early as in August 1975. His speech was a program for bringing order out of chaos in industrial production, which was then in a state of utter confusion. In this speech, Comrade Deng Xiaoping stressed that industry must have agriculture as its basis and must serve agriculture, that the efficiency of enterprise management must be rectified, and that rules, regulations, and systems must be restored and perfected. Moreover, he also stressed that the enterprises must more vigorously undertake scientific research and must satisfactorily grasp product quality. He put forth a brilliant scientific thesis on the relationship between the quantity and quality of products: "Improving product quality is tantamount to enormous economizing. In a certain sense, better quality is tantamount to a larger quantity." (Ibid, p 30) Is this not true in reality? Even now, many industrial enterprises still simplistically pursue quantity at the expense of quality. The inevitable result is that large quantities of waste products and defective goods are produced, living labor and materialized labor (materials, raw materials and equipment) are wasted, and overstocking of products occurs. "Policies concerning quality are major ones." "Only by improving quality can we increase exports or open up export channels. If our products are to have competitive power on the international market, we must vigorously work to improve quality." (Ibid, p 30)

Comrade Xiaoping has adhered to the guiding principle of readjustment, which aims to overcome the grave problem of disproportion that has existed in our national economy for many years. He said that in certain areas production must be adequately cut back. However, we must try our best to develop agriculture, light industry, the production of daily goods essential to the people's livelihood, and construction in the fields of energy resources and communications. Thanks to the arduous work of 1981, good success has been achieved in our national economic readjustment. However, in the latter half of last year, duplicate construction in various localities and unbudgeted capital construction reappeared. This seriously affected our state's key construction projects in the fields of energy resources and communications. Although at present a new round of readjustment has not been launched, Comrade Xiaoping's speech about "implementing the guiding principle of readjustment, ensuring stability and unity" is still of great practical significance.

Caring for the livelihood of the masses is a revolutionary tradition of our party. Enabling the broad masses of our country to embark on the road of joint prosperity is one of our party's revolutionary tasks. Comrade Xiaoping has earnestly advised us to care for the livelihood of the masses. In the period when "leftist" mistakes predominated, it was thought that joint prosperity ought to be "as clear-cut as the slash of a knife," that is, everyone must simultaneously become well off on a certain morning; otherwise, people who earned a higher income through hard work could be regarded as some spontaneous capitalist forces. Obviously, this was a kind of subjectivism and a metaphysical viewpoint. Over the 20 years or more prior to the 3d Plenary Session of the 11th CPC Central Committee, this "leftist" mistake had extremely serious disruptive effects on the development of the productive forces and the enhancement of the working people's enthusiasm for work. In view of this

situation, Comrade Xiaoping said: "With regard to economic policy formulation, I think we must permit some localities, enterprises, workers and peasants to become well off and to earn a higher income before others do, through their hard work and great achievement. If some people become better off before others do, they will inevitably become some very powerful demonstrating forces which affect their neighbors and cause people in other localities and units to emulate them. Thus, the entire national economy will continue to develop wave upon wave, so that the people of various nationalities in our country will all rather quickly become well off." ("Selected Works of Deng Xiaoping," p 142) Facts have proved that to enable the masses to embark on the road of joint prosperity, we must never adopt the metaphysical method of "drawing a line of distinction as clear-cut as the slash of a knife." Instead, we can only adopt the method of allowing some people to become well off before others do, so that they can bring along other people to advance together.

The "gang of four" caused grave disruption to our country's industrial and agricultural development by substituting egalitarianism for distribution according to work done. Even when the "gang of four" were still running wild, Comrade Xiaoping said: "If one's wages are invariably 40 or 50 yuan regardless of the difficulty of one's work, then, though it appears that all are equal, the principle of distribution according to work done is actually not complied with. In this way, how can people's enthusiasm be mobilized?" (Ibid, pp 30-31) Comrade Xiaoping adheres to the socialist principle of distribution according to work done and criticizes the principle of distribution according to political criteria and seniority. He says: "In determining wage grades for various workers, we must mainly consider his technical standard, his contribution and the quality of his work. We must also consider his political attitude, but we must make it clear that a good political attitude should mainly be reflected in doing a good job in socialist labor and making a great contribution. In handling matters of distribution, if we mainly consider political criteria and not work done, then, distribution would be based on political criteria instead of work done. To sum up, distribution must be based on work done and not political criteria or seniority." (Ibid, p 98) Those erroneous views on distribution criticized by Comrade Xiaoping still objectively exist at present. In particular, egalitarianism has widespread harmful effects. To implement the socialist principle of distribution according to work done in various sectors of our national economy is still a major task which calls for our great efforts.

The import of new technology and equipment is a very important matter in our achievement of socialist modernization. In those days when the "gang of four" ran wild, Comrade Xiaoping said that we must "import new technology and equipment as well as increase our imports and exports." (Ibid, p 29) Importing foreign new technology and equipment does not violate the principle of self-reliance. On the contrary, it is an important measure for enhancing our country's ability for self-reliance, because it helps us shorten the time taken for research into new technology. Moreover, imported technology and equipment can be assimilated by our country and thus become our own scientific and technological forces. The fact that the "gang of four" frantically opposed the import of new technology proves that they were both counter-revolutionary and ignorant. It is incorrect to confuse foreign new technology with the capitalist system. Once we mastered it, foreign new technology will

become something that serves socialist modernization. Comrade Xiaoping said: "Capitalism has a history of several hundred years. The science and technology developed by the peoples of various countries under capitalism and various categories of knowledge and experience accumulated over time should be inherited and learned by us. We must selectively and in a planned way import advanced technology and other useful things from capitalist countries. However, we will never emulate or import the capitalist system or various kinds of ugly and decadent things." (Ibid, p 154) It is not realistic to think that importing advanced technology from capitalist countries is tantamount to importing the capitalist system and its ugly and decadent things. This view is extremely disadvantageous to our country's socialist modernization.

To achieve the four modernizations in our country, we must adhere to the four basic principles. Achieving the four modernizations in our country obviously refers to taking the socialist road and achieving socialist modernization. It is unimaginable that socialist modernization can be achieved if we depart from the dictatorship of the Proletariat (that is, the people's democratic dictatorship), if we depart from the CPC's leadership, or if we depart from the guidance of Marxism-Leninism-Mao Zedong Thought. Mao Zedong Thought teaches us that we must insist on being realistic at all times and in dealing with all questions of guiding principles and policies. In our country's socialist modernization, we must inevitably proceed from our country's reality and characteristics; only thus can we build a socialist system with Chinese characteristics. Comrade Xiaoping says that we must note two important characteristics of our country, namely, the weak foundation of our country's industry, agriculture and scientific and technological forces, and our large population despite a lack of farmland. Modernization is to enable our country's scientific and technological forces to develop year after year, and to gradually bring about mechanization, electrification and automation in our country's industrial and agricultural production. It is clear that the labor forces needed for modern production continue to decrease. However, our country has a very large population. Therefore, aside from implementing birth control, we must have overall planning for, and give due consideration to, these two aspects. Comrade Xiaoping has thoroughly and scientifically analyzed this question.

Since the "Great Leap Forward," "Leftist" mistakes began to disrupt the development of our country's social productive forces. During the decade of upheaval, the situation became increasingly more serious. Lin Biao said: "Politics can give impetus to everything else," and the "gang of four" frantically disrupted our country's social productive forces. Consequently, the material and cultural life of the masses deteriorated. Thus, who could see the superiority of the socialist system? This was a serious problem which called for our attention. In view of this, Comrade Xiaoping said: "The superiority of the socialist system is reflected in the fact that it allows social productive forces to develop at a speed not seen in the old society, so that the people's ever-increasing material and cultural needs can be gradually satisfied. According to the historical-materialist viewpoint, the results of correct political leadership must ultimately be reflected in the development of social productive forces in the improvement of the people's material and cultural needs." ("Selected Works of Deng Xiaoping," p 123) He solemnly and earnestly continued: "If the development of a socialist country's productive forces is slower than

that of the capitalist countries, how can we talk about superiority? We must think: What have we done for the people? Taking advantage of existing favorable conditions, we must quicken the development of the productive forces, so that there can be some improvement in the people's material life, cultural life, and mental outlook." (Ibid, p 123) His exposition not only correctly expresses the scientific Marxist-Leninist theory on the superiority of the socialist system, but teaches us to have a strong sense of responsibility toward the people!

The "Selected Works of Deng Xiaoping" comprehensively analyzes the questions of our party's line, guiding principles, and policies in this period of great historical change. My short article only concerns Comrade Deng Xiaoping's contribution to the question of our country's socialist modernization. However, from this aspect alone we can discern Comrade Deng Xiaoping's dauntless courage as a proletarian revolutionary and his scientific attitude of being realistic, circumspect, and farsighted. Like other comrades, I deeply believe that the publication of this monumental work will [words indistinct] Marxism, and will powerfully promote our country's socialist modernization.

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NATIONAL POLICY AND ISSUES

ESTABLISHING RESPONSIBILITY SYSTEM IN ENTERPRISES

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT]
in Chinese No 3, 25 Jun 83 pp 6-11

[Article by Yuan Zhenyu [5913 2182 1342]: "Transforming Profit Delivery Into Taxation and Establishing the Responsibility System in Enterprises"]

[Text] The transformation of profit delivery into taxation in the state enterprises will be one of the key projects in the reform of our economic management system in the last 3 years of the Sixth 5-Year Plan. This reform, which will run parallel with efforts to enhance the role of the key cities and the transformation of the system of commodity circulation, will produce an extremely far-reaching impact on the economic development of our country.

I. The Transformation of Profit Delivery to Taxation Is an Objective Demand of Our Desire to Establish a Perfect Economic Responsibility System in Our Enterprises

Transformation of profit delivery to taxation refers to the change from a system of having the enterprises turn over all their profits to the state to a system of having them pay taxes. This is not only a change in the form of turning over funds to the treasury, but a major reform in the distribution as between the state and the enterprises and between the central authorities and the different levels of the local administration. The basic point of departure in this change is the aim to establish a perfect responsibility system in the enterprises, and for this purpose, to really transform the enterprises into relatively independent economic entities, to improve the integration of responsibility, rights and profits in the enterprises and thereby to impart much greater vitality to all our enterprises, which are the primary cells in our economy.

It has been a most fundamental and long-standing problem of economic management under the system of a socialist planned economy--and a problem that has all along never been solved--how, on the one hand, to strengthen the state's policymaking and control over macroeconomics, while, on the other hand, granting the enterprises the necessary decisionmaking powers in their production and business operations and allowing them to fully assert their inherent vitality. When it comes to the distribution between the state and the enterprises of the surplus products created by the staff and workers in state

enterprises, the question is how to give equal consideration to the interests of the three parties: the state, the enterprise and the staff and workers, so as to be able to ensure the necessary accumulation of funds by the state to satisfy the needs of key construction projects, while, on the other hand, leaving the enterprises a certain financial strength to satisfy the needs of their own development and the needs of improving the standard of living of their staff and workers.

Before 1979, we practiced a high degree of centralization, a management system of centralized income and centralized expenditures. Social production, distribution, exchanges and consumption were all areas centrally managed by the state. Although an enterprise was a comparatively independent production unit, it had basically no authoritative powers in matters of personnel, finance, materials, production, supply and marketing; it was simply an appendage of the administrative organ. This system seriously impaired the ability of the enterprises to bring all their vitality into full play, and it was a considerable impediment in the development of the productive forces. In the 29 years prior to 1979, our national economy did develop by and large at not too slow a pace, but it showed great deficiencies in the economic results of production, circulation and construction, and the people were unable to gain greater material benefits in the wake of the economic developments. One of the major reasons was that no effective economic responsibility system had been established in the enterprises, that would have brought their inherent vitality and potential into full play.

Since the 3d Plenary Session of the 11th CPC Central Committee, reforms were instituted by the state in the economic management system, in a planned way and in stages, to amend this situation of an overcentralization of powers, and these reforms first of all took in hand the reform of the system of financial distribution and an extension of autonomy in the enterprises. With due consideration for the differences in different industries and enterprises, various methods, such as allowing separate enterprise funds, retention of a share of the profits, contractual responsibility for profits and losses, were carried out, whereby some of the financial resources, formerly all centralized in the hands of the state, were left to the enterprises to dispose of. These methods initially linked up the success or failure of business operations of enterprises with the material interests of the staff and workers, aroused the enthusiasm of the enterprises and of the broad masses of their staff and workers and promoted the development of all our production and construction undertakings. The reason why the national economy could advance at a steady pace during the few years since then was closely linked to the reform in the area of distribution.

It is obvious that although the system of allowing the enterprises to retain a percentage of the profits was a great step forward from the system of centralized sharing of all profits and losses and everyone "eating from the same big pot," viewed from the angle of establishment of a perfect system of economic responsibility and of basically aiming at eliminating the system of "eating from the big pot," the partial profit-retention system is not an ideal method because under this system there is great elasticity as to profits

to be turned over to the treasury. If the enterprise made a profit, it had to divide it up to share a percentage. If profits were small, the share would simply be smaller, but the enterprise can still get its share by such methods as adjusting the profit norm of the plan, and even if a loss is incurred, the enterprise would not bear much economic responsibility. When determining the base figure for profits to be retained, disputes would frequently arise between the enterprise, the local authorities and the state, wrangling over the profits to be shared. Owing to differences in prices, quality of natural resources, the kind of equipment in use, communications and transportation facilities and other such factors, there is a great disparity between the profit levels at different enterprises, and this made some feel bitterness, some happiness over the share of profit they could retain. Another consequence was that some enterprises were willing to manufacture only articles that would yield a high profit margin and were unwilling to manufacture goods with a small profit margin. To a certain degree, this encouraged irrational production and duplications in construction, which in turn adversely affected the realization of the plan tasks of the state. Furthermore, because the division of the economic benefits was under the jurisdiction of administrative departments or local authorities, the enterprises suffered greatly from the restraints imposed by central and local authorities, which also hampered bringing the enthusiasm of the enterprises into full play. Under this system, the relationship between the enterprises and the state was of an administrative nature, and there was no effective integration of responsibility, rights and profits in the enterprises.

For these reasons we intend to advance from this basic profit-retention system through further reforms in our search for a system that will enable us to establish a more perfect economic responsibility system in the enterprises and that will provide a new distribution system which will be beneficial for the development of our productive forces. It is precisely the transformation from profit delivery to taxation that has created the necessary conditions for the establishment of a perfect economic responsibility system in the enterprises and is providing clear and definite legal delimitations. Following the transformation from profit delivery to taxation, not only will the state's revenue steadily increase due to the development of production and the rising economic results, but the economic benefits of the enterprises will have been provided with guarantees in law, and they will at the same time be better able to bring the role of tax leverage in regulating economic life into full play.

II. What Benefits Will Actually Derive from the Transformation from Profit Delivery to Taxation for the Establishment of a Perfect Economic Responsibility System?

During the last 3 years, 456 industrial and communications enterprises in 18 provinces, municipalities and autonomous regions had been selected, in compliance with the demand for reform of our economic management system, as test units for the change from profit delivery to taxation. Although methods followed were not completely identical in all places, the special features common to all cases were that the income tax became the main tax levied from

them. The state participated in the distribution of the profits of the enterprises by first levying more or less 50 percent as income tax and later, according to the varying conditions in different enterprises, used an adjustment tax, a capital fund user's fee, dividends from capital and other forms to draw off a part of the profits made by the enterprise, leaving the balance of the profits to the enterprise to dispose of at its own discretion. Judging by the conditions in the test units, the results were gratifying. Judging by the conditions in the test units, the results were gratifying. After the change from profit delivery to taxation, there was a much closer integration of responsibility, rights and profits in the enterprises, the enthusiasm of the enterprises was fully aroused, development of production was promoted and economic results kept rising. According to statistics, comparing 1981 with 1980, the gross product value of the 456 test enterprises increased 2.5 percent, sales proceeds rose 8.9 percent, profits realized increased 18 percent and taxes and fees turned over to the treasury increased 13.6 percent. The increase in sales proceeds clearly exceeded the increase in gross product value, and in particular the increases in profits realized and in taxes and fees turned over to the state exceeded the increases in gross product value and in sales proceeds. In the distribution of profits realized by the enterprises in 1981, the state took 76.82 percent and the enterprises retained 23.18 percent. Of the additional profits made that year, the state took 60.13 percent and the enterprises retained 39.87 percent. Thus effective consideration was given to the interests of the three parties concerned, the state, the enterprises and the staff and workers.

The experiences of the test units signify that the system of taxation instead of profit delivery is much superior to the system of retention of a percentage of profits. In the light of gaining a more perfect system of economic responsibility in enterprises, the major manifestations of this superiority are the following:

1. The Enterprises Are Provided With Broader Decisionmaking Powers and a Clear and Definite Economic Responsibility

After changing from profit delivery to taxation, the relationship between the state and the enterprises in matters of distribution became fixed by formal legislative means, which gave the enterprises the true status of legal economic persons. Since the enterprises are only obliged to pay the state taxes according to law, all profits after taxes may be disposed of by the enterprises at their own discretion. This is a very effective manifestation of the autonomy of the enterprises, which will establish them as relatively independent economic entities of great economic vitality. Since taxes are mandatory and collected on the authority of the state, the tax rates cannot be adjusted at will, and taxes must be paid according to the regulations, regardless of how profitably, or otherwise, the enterprise is operating. This will cause the enterprises to overcome their feelings of dependence on the state, cause them to make reasonable arrangements to get along by themselves and accept responsibility for profits as well as for losses. Due to the fact that enterprises of all ranks and categories, regardless of their former administrative affiliation, will have to pay taxes according to law to the central and local authorities, they will all bear the same financial obligations and

make equal contributions. This will reduce the unnecessary forcible interferences in the enterprises by local authorities and departments, motivated by selfish economic interests, and will gradually weaken the ownership mentality of the local authorities and departments due to their sharing of benefits in the past, and will create the necessary conditions for the enterprises to case off the restrictions formerly imposed by central and local authorities.

2. Greater Economic Vigor in the Enterprises for the Development of Production and Perfection of Business Operations

With the transformation from profit delivery to taxation the "big rice pot" is broken, the great "mountain that one could lean against" of centralized income and centralized expenditures is gone, and the pressure is on for the enterprises. The only way that enterprises can get ahead now, and staff and workers can gain more material benefits, is to change their mentality regarding business operations, change their style of operating and their way of management. They must change from the past custom of a purely production-oriented management, where production was the core concern, to a production-business-oriented management, where business operations are the core concern, the product mix and product quality are key points and where economic results are the objective. This change would enable a full mobilization of enthusiasm and creativity for greater production and improved business operations in the enterprises. In the wake of more developed production and better economic results, not only will the state reap larger revenue, but the financial resources at the direct disposal of the enterprises will become stable and more abundant. In line with the demands of the macroeconomic policy decisions and attuned to the needs of the market, the enterprises will then be able to promptly adjust their product mix, change the targets their production is intended to serve and particularly also make long-term programs for their future development, make correct policy decisions, effectively carry out step by step and in a planned way the renewal of equipment and transformation of technologies as well as the upgrading of their products, and will furthermore be able to gradually improve the collective welfare of their staff and workers and to raise the service effectiveness of capital funds. At the same time, the enterprises will be able to develop, in line with the principle of economic rationalization, the horizontal linkages in our economy, promoting specialization and socialization of production. As soon as the economic vitality of the enterprises will have asserted itself, and the microeconomy will have become revitalized, the entire national economy will also develop at a very rapid rate, in line with the continuous rise in economic results.

In the course of the economic readjustments during the last few years, quite a number of test units strove by every possible means to take on new tasks, to survive by improving quality and to develop by enlarging their product mix. They broke free from the conventional sectarianism, undertook large-scale manufacture of products and items outside their original lines of production, gave up their "big factory" arrogance, used the existing equipment and facilities to go into "small business," changed their outmoded convention and bad custom of only selling without giving repair service and expanded the sphere of service operations. They brought about large increases in production and a marked rise in economic results. The Pengpu Machinery and Equipment Plant in

Shanghai was mainly manufacturing bulldozers, but due to readjustments in the machine industry the production assigned by the state declined year by year. The production tasks assigned according to the 1980 plan accounted for only 40 percent of the total value of industrial production actually completed in the whole factory. In 1981, this figure dropped to 14.8 percent and in 1982 again to 4.5 percent. Faced with this serious lack of new production tasks, they tapped new avenues of production and in addition to bulldozers started to manufacture light industry machinery and equipment such as beating machinery and plywood machinery, and furthermore undertook large-scale repairs of bulldozers, giving up their former attitude of mainly concerning themselves with entire machines and giving little attention to machine parts, but now greatly increasing the manufacture of components and parts. With rising raw material prices and reduced prices for their own products, the said plant could still realize yearly increasing profits. The Beijing Optical Instruments Plant, faced with sluggish sales of their products and seeing prices drop almost to below their own production costs, met the needs of the market and saved the situation by starting to manufacture new products. In 3 years their trial produced 21 new items, which was the total they had achieved in all the 12 years before the change from profit delivery to taxation. They also energetically changed their business mentality and business style. The principle that they upheld was: "Let us gain success by increasing our product mix, by improving quality, by low prices and by building up a reputation among our customers." They established 71 sales agencies and 24 service stations throughout the country and thus expanded the marketing of their products, while also providing better facilities for their customers. Although the above are the stories of only two test enterprises, they well reflect one aspect of the deep-going changes that have occurred in the production and business operations of enterprises after the transformation from profit-sharing to taxation.

3. Stimulation of the Enterprises to Establish and Perfect Internal Economic Responsibility Systems

After the change from profit delivery to taxation, the enterprises felt themselves burdened with a heavy task and under great pressure. Even more important was that the successful or unsuccessful business operations of the enterprises became directly linked with the material benefits for the enterprise and for its staff and workers, thus forcing the enterprises to concentrate efforts on strengthening economic accounting, on tapping internal potential and on continuously raising the economic results of operations. This promoted the speedy establishment and perfection of economic responsibility systems within the enterprises. Quite a number of test enterprises established and perfected business accounting at three levels, at the factory, the shop and at the factory team level. They broke down all economic technical norms for separate assignment to lower levels and carried out such methods as control of capital funds by fixing responsibilities, fixed responsibilities for expenditures, internal cash settlements of accounts and linkage of rewards and penalties to actual acts or performances. They prescribed various work norms and drew up rules and regulations, so that each level and each post had its clear and definite economic responsibility. The establishment of the economic responsibility system within enterprises strengthened management in the areas of planning, finance, technology, quality, labor, etc. The orderliness of

production work was greatly enhanced, wastage of capital and goods was reduced with each passing day and they achieved increased production and income or reduction in production with increased income.

4. Strengthening of the Responsibility of an Enterprise Leadership and Promoting Democratic Management

After the change from profit delivery to taxation, the enterprise leadership is bearing a heavier burden and greater responsibility. Upward, the responsibility is toward the state and downward the responsibility is toward the staff and workers of the entire enterprise. This demands of the leadership that they continuously improve their work methods, change their workstyle, turn from merely handling production to taking overall economic management firmly in hand and turn from remaining ignorance of technology to gradually familiarizing themselves with technology. The factory director of one of the test enterprises that had changed from profit delivery to taxation said: It had been easy to be factory director before the change from profit delivery to taxation, because one was only responsible for the command-style plan handed down from above. Now one is not only responsible toward the state, but also toward the enterprise and its staff workers, as well as toward the consumers of the factory's products, and devoting all one's mind to the task still seems not enough.

After the change from profit delivery to taxation, the success or failure in the business operations of the enterprise became tightly linked with the fate of the enterprise and the interests of its staff and workers. This changed the former situation where the enterprise was resting and relying on the state, the staff and workers were resting and relying on the enterprise and all were "eating from the big pot." The change aroused to a high degree the sense of responsibility of the workers as masters of their own affairs. Of their own accord, they became concerned for the development of the enterprise, each of them carefully calculating and budgeting and taking a personal interest in the way the enterprise was getting along. The masses in the test enterprises said: "In the past, leadership carried the thousand cattie burden, the bodies of the masses remained light and free as air. Now it is the masses who shoulder the thousand cattie load, but when everyone adds fuel the flames rise high." In brief, after the change from profit delivery to taxation, the responsibility of the enterprises has become heavier, pressures have increased, vitality has been enhanced, potential has been tapped and the motive force has become much stronger.

III. Some Problems That Must Have Our Attention and Must Be Solved When Profit Delivery Is Replaced by Taxation

For the establishment of a perfect economic responsibility system in enterprises the advantages of replacing profit delivery with taxation are very obvious, but the process of testing the system, certain problems have emerged which deserve our attention:

First, how can the stable growth of state revenue be ensured?

From an overall viewpoint, the implementation of taxation in place of profit delivery can ensure the stable growth of state revenue. However, when conducting the tests, due to imperfections in the methods used, it was difficult to find any untapped potential in the enterprises. It also occurred that in the profit realized by certain enterprises, the amount of the state's income from the profit declined, but the amount retained by the enterprises increased, even to the degree that from the increasing profits, the enterprises got the bigger share and the state the smaller share. For example, 50 small-scale industrial and communications enterprises of the state in suburban counties under the jurisdiction of Shanghai Municipality started in 1981 to carry out experimentally taxation in place of profit delivery. In 1980, the proportion received by the state from the profits realized by these enterprises was 79 percent, and the proportion retained by the enterprises 21 percent. In 1982, the profits realized by these enterprises rose 50 percent, but the income of the state from these profits rose 15 percent, compared to before the experiment; the proportion of income of the state declined to 60 percent, while the income of the enterprises increased 1.8 times, compared to before the experiment, and their actual income rose to 40 percent of the total profits. In four industrial enterprises serving as test cases in the Tianjin area, the total profits in 1982 increased 31.3 percent, compared to 1979, but the income of the state increased only 16.4 percent, compared to 1979, while the profits retained by the enterprises increased 1.4 times.

At present the financial difficulties of the state are still very great. Although, through joint efforts by everyone, the state's revenue ceased from 1982 on to decline further, as it had done for several years in a row, the range of increases of the state's revenue was very small and far less than the range of increases registered by output value and sales proceeds. For some years to come, the state will still have to further implement a policy of readjustments, restructuring, reorganization and upgrading, and by all appearances there can be no large increases in revenue, while expenditure on all sides is increasing without end. For these reasons, the balance that we have now basically achieved in the state's income and expenditures is not very stable, and if no energetic moves are made to increase revenue and limit expenditure, there is the danger that the deficit will keep growing. In instituting taxation in place of profit delivery, we must, therefore, definitely implement the principle that from profits realized by the enterprises and in their expanding profits, the state gets the larger share, the enterprises the medium share and the staff and workers a smaller share, so that the state's revenue will increase fairly rapidly year by year. The method of uncritically protecting the "vested interests" of the enterprises and trying to arouse enthusiasm by reducing the state's revenue is extremely harmful. Even though it may for a time arouse enthusiasm, this could not be maintained for long. Methods that would have the treasury "give up profits" and "yield in matters of taxation," that would lightly and laxly let the enterprises get away with some advantages would also run counter to the demands for the establishment of a perfect economic responsibility system in the enterprises.

Second, How to Coordinate Taxation in Place of Profit Delivery With Management by Contract?

When conducting the experiments with taxation in place of profit delivery, we discovered the following trends: Enterprises with a fairly low level of profits and insufficient production tasks were concerned that they would face additional risks after converting from profit delivery to taxation, while enterprises with a fairly high level of profits and an abundance of production tasks were hoping to institute management by contract (contracting for progressively increasing profits). As from this year, there is a tendency to rush into management by contract arrangements. Some enterprises do not display any interest in a change from profit delivery to taxation, but rather clamor for management by contract. This situation must have our serious attention.

The system of management by contract is one pattern of the economic responsibility system in enterprises. There are some links, but also some differences between the transformation of profit delivery to taxation and management by contract, but both are not interchangeable. Management by contract is a kind of contractual undertaking toward the state, which entails various economic norms, of which one important norm is concerned with profits. We must be clear and definite about the fact that contracting within the enterprises is undoubtedly consistent with the demand for the establishment of economic responsibility systems within enterprises. Undertaking contractual obligations toward the state must only affect posttaxation and not pretaxation obligations, and even contracting for posttaxation obligations is only a temporary and transitional method. From the viewpoint of a radical improvement of the relations between the state and the enterprises, and of establishing a perfect economic responsibility system in the enterprises, we must firmly and unswervingly proceed in the direction of replacing profit delivery with taxation.

Because of the effects of unreasonable pricing and other objective factors, there are great discrepancies in the profit levels between different lines of industry and between different enterprises. On the other hand, tax planning and tax rates demand uniformity, without any differences between the various enterprises. Moreover, the tasks of readjusting, reorganizing, restructuring and upgrading our national economy have not yet been completed. Great changes are to take place in the production and business operations of the enterprises, while all quarters concerned have not yet carried out sufficient preparatory work. For these reasons, conditions have not yet matured to have the change from profit delivery to taxation carried out comprehensively and thoroughly, but a step-by-step operation is needed in this respect. At present, the transformation from profit delivery to taxation refers mainly to a way of first taxing the profits realized by large and medium enterprises according to a fixed rate of income tax (for instance, at the rate of 55 percent), and after taxation still to effect a distribution of the balance of the profits between the state and the enterprises. Considering the historical conditions of the system of allowing retention of a percentage of profits and basing it on the realities of various different enterprises, it is possible to institute a variety of patterns to effect contracting for turning over profits: Enterprises with fairly large potential for increased production and increased income may carry out contracting for progressively increasing profits. Enterprises with relatively stable levels of profit could specify fixed amounts in their contracts, and some enterprises may contract on a proportionate basis. In brief, we must not "cut everything with the same knife." In the case of

small-scale state-run industries and enterprises, retail businesses, catering trades, service and repair businesses, a system of taxation by the state with enterprise responsibility for profits and losses may be instituted. Operation of these businesses may be contracted for or leased by collectives or by individuals.

In the course of carrying out the responsibility system with management by contract, some localities used a method of contracting for taxes, as, for instance, contracting for a fixed amount of income tax. This is not an appropriate method. Taxes are levied according to law and at certain rates. A uniform tax rate is applied to the same product without distinction as to enterprise and locality. The tax rate is different for different products, even if produced by the same enterprise and in the same locality. A method of contracting for taxes actually negates the basic principles of taxation and negates the role of taxation as an economic regulator. The method of contracting for taxes is, therefore, not permissible under any circumstances.

Third, How Can Taxation in Place of Profit Delivery Be Coordinated and Integrated With Reforms in Other Areas?

If we are to really establish a perfect economic responsibility system in the enterprises, it is not possible to merely rely on this one means of changing from profit delivery to taxation, but it is necessary to support this change with reforms in other areas. Although the enterprises are now financially stronger than before, their decisionmaking powers in the field of planning, workers' wages, materials and pricing are very small. Even though certain reforms were carried out in the last few years, progress was limited, and the overcentralization and excessively rigid control by the state is still a matter awaiting further remedial action. The transformation from profit delivery to taxation will of course spur on reforms in other areas, but whether the change from profit delivery to taxation can fully assert its superiority will again be determined to a great measure by reforms in other areas. It is, therefore, necessary to follow the policy of the Central Committee, requiring comprehensive and systematic reforms as well as resolute and orderly reforms, and simultaneously with the change from profit delivery to taxation, take the reforms in all other areas firmly in hand. It is especially necessary to take the preparatory work for a comprehensive reform of the pricing system firmly in hand. Only after adjusting prices to more or less reasonable lines and rendering the profit level in enterprises capable of truly reflecting the success or failure of business operations in the enterprises, can a thoroughgoing transition be made from the present system, which has taxation and profit delivery side by side, to a single system of taxation, that is, to a thoroughgoing replacement of profit delivery by taxation.

The tax system itself is in urgent need of reform. Our system of levying taxes originated in the fifties. Following some simplifying and combining, the tax categories became fewer and fewer. State enterprises are only taxed the industrial and commercial tax; collective enterprises are only taxed the industrial and commercial tax and the income tax. Many problems also exist as to the tax rates, which are by far from adequate to cope with the changed economic conditions. In our experimental replacement of profit delivery by taxation,

the methods of taxation differ in the various localities. In Shanghai, the original system of turning over all profits to the treasury was replaced by levying income tax, income adjustment tax, real estate tax, vehicle and boat license tax, fixed capital use fee and circulating capital use fee. In Liuzhou municipality the system of turning over profits to the treasury was changed into levying income adjustment tax, income tax and a practice of extra capital dividends. Sichuan is levying income tax, income adjustment tax, fixed capital use fee and circulating capital use fee. Guanghua County in Hubei Province only collects income tax. Beijing Municipality collects the adjustment tax, income tax, city construction tax, fixed capital use fee and circulating capital use fee. There are also local differences in levying income tax and adjustment tax. Taxing income tax, for instance, its rate in Shanghai, Liuzhou and Beijing is 50 or 40 percent; in Sichuan each enterprise is assessed a different rate; Guanghua County in Hubei Province uses a progressive tax on excess earnings with five grades. In the case of the income adjustment tax, in Shanghai and Beijing it is linked to the sales proceeds, and the rates are assessed separately for each tax account. In Liuzhou it is linked to the rate of profits from the average social sales. If the profit rate from sales is below 15 percent, no tax is levied; above 15 percent an adjustment tax of 0.6 percent is levied for each additional percent of profit. This tax is levied according to the sales proceeds from all products sold. Because of the difference in tax categories and tax rates, taxation has lost all its uniformity, stability and dignity. Therefore, a comprehensive reform is necessary of our whole current system of taxation. More appropriate tax categories have to be set up. The tax rates have to be adjusted, and in our experimental tax enterprises the discrepancy in tax categories and tax rates has to be remedied. The legislative and judicial work concerned with taxation has to be strengthened, and a uniform tax system must be established which must be suited to the particular conditions of our country.

Fourth, How Can the State's Plan Guidance Be Strengthened Following Transformation From Profit Delivery to Taxation?

After transformation from profit delivery to taxation, the enterprises will have greater autonomy in their business operations. Under these conditions, is it still necessary to strengthen the state's plan guidance? Some comrades have expressed the opinion that since the enterprises are now relatively independent economic entities, and since the enterprises are obliged to pay taxes to the state, they must be given a free hand in their production and business activities since the market will exercise its regulatory function, so that there is no further need for control by a state plan. This is a mistaken understanding of establishing an economic responsibility system in the enterprises. Socialist economy means "main reliance on planned economy; the regulatory role of the market to be a subsidiary factor." This principle cannot be changed, and the decisionmaking powers of the enterprises can also only be brought into play as they are being guided by this principle. Divorced from plan guidance, the greater the autonomy of the enterprises, the more irrational and blind their actions will become. Every microeconomic act by an enterprise must be consistent with the demands of macroeconomic policy decisions. Only by an identity of microeconomic benefits with macroeconomic benefits can the economic responsibility system in enterprises achieve its due effects.

Following the transformation from profit delivery to taxation, and in the wake of the development of our production, the financial strength at the disposal of the enterprises will increase year by year, which is an inexorable trend. How the state's plan guidance is to be strengthened and how these funds are best used, while at the same time respecting the decisionmaking powers of the enterprises, is now a matter that must be carefully studied, and brought to a solution. With more funds at the disposal of the enterprises, the vitality of our economy is much enhanced. This is a good turn that we must first of all confirm. However, if plan management and the overall balancing of the economy cannot catch up, the good turn may turn bad. In the last few years, it has indeed happened that certain enterprises started out by merely giving consideration to their own partial interests. They blindly invested their funds and carried out construction that involved much duplication, which in turn resulted in a rapid inflation of the scope of investments in fixed assets all over the country, and which had an adverse effect on the national economy as a whole.

How are we, then, to strengthen the state's plan management of the way the enterprises will use their financial strength? Some comrades are of the opinion that the present financial strength is too scattered and should be turned over to the control of higher authority. Some comrades, whenever mention of plan management is made, will always beat about the bush on the topic of strengthening administrative management. The result of such attitudes is only that the overly rigid control of enterprises of the past will be continued and that it will still not be possible to turn the economic vitality of the enterprises to full account. We must, therefore, open up new paths, most importantly, use the economic leverage of pricing, taxation, bank credits and interest charges to regulate the direction of the investments by enterprises and guide the enterprises toward meeting the demands of the state plan. The state should have uniform regulations on how profits retained by the enterprises after payment of taxes must be allocated to the fund for trial production of new products, the production development fund, reserve fund, staff and workers welfare fund and the bonus and reward fund; there should be here no freedom to do as one pleases. More flexibility may appropriately be shown in the fund for simple reproduction, where decisionmaking could be delegated to the enterprises. Funds for expansion or reproduction, however, must be very strictly controlled. Money for which the enterprises have no immediate use must be deposited in banks, to serve as important sources for bank loans. Some of the deposits could possibly be available for use by the banks over fairly long periods of time. We must, therefore, bring the role of the banks even more fully into play in a future improved management and use of funds. The banks should serve the enterprises as good advisers, providing them with all kinds of economic intelligence, urging the enterprises to strive for economic results in the use of funds, urging them to use all money genuinely on key projects urgently required by the state and on technological reforms.

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ECONOMIC PLANNING

MANAGEMENT, STATISTICAL STUDY OF FIXED INVESTMENT NEEDS STRENGTHENING

Beijing TONGJI [STATISTICS] in Chinese No 7, 17 July 83 p 9

[Article by Bureau of Statistics, Planning Commission, Luoyang Prefecture]

[Text] Strict control over the scope of fixed investment designed to safeguard key construction projects, promote technological transformation, and raise the cost-effectiveness of investment is an important measure to ensure steady and healthy development of the national economy. The fact that our prefecture has been plagued in recent years by slack management of fixed investments, loss of control over investments, irrational use of funds, proliferation of above-plan capital construction projects under the guise of technological transformation, and the failure of statistics in its investigative role is due to the following factors.

I. Too many planning agencies and lack of unified management. Nowadays, fixed asset plans are handled by many agencies. In addition to those set down by the planning authorities, the operational departments at various levels also have their own projects. After gaining decisionmaking power, the enterprises which have sufficient funds can have their own construction projects. The fact that the planning commissions at various levels can only take charge of the construction projects authorized by the planning department leaves some projects outside the orbit of unified planning. The statistical investment data compiled by the statistical departments do not reflect fully the scope of all the fixed investments in our prefecture because the data cover only the projected plans handed down by the planning departments.

II. The basic-level statistical capability is very limited. The general statistical office of each of the 16 districts and cities of our prefecture has only a part-time statistician who holds two or three concurrent positions to handle the capital construction statistics, except the City of Sanmenxia which has a full-time statistician on the job. Most of the construction units do not fill out their statistical forms as truthfully as required by regulations. Acting on the call of the State Council for strict control over the scope of fixed investment and strengthened management of such investments in order to cope with the problems attendant to the management of fixed investments in our prefecture, the prefecture planning commission, together with the bank of construction, the bureau of statistics, the bureau of finance and other related departments, have checked up on all the 1982 fixed investment

constructions, identified the government agency which approved each project, its source of funding, and the amount of work already done. Working on the data as a base, we have formulated a number of measures to strengthen the management of fixed investments which have made the supervisory and investigative roles of the bank and the statistical departments more effective. The following are the specific measures:

1. A thorough checkup of all the 1982 construction projects. The check up includes all projects of capital construction, renewal and transformation with or without prior approval. They are recorded under separate headings according to the agencies which administer them. The recording also covers the amount of investment in each project, the content and nature of the construction, its bank deposit, the amount of its funding, and the actual completion of the investment (the amount of work already done). If the recorded data do not agree with the 1982 statistical data or where no annual report has been filed, the construction unit should explain the reasons in writing and apply to amend the record. The accepted version must be cosigned by all three parties concerned, otherwise, the planning department shall not settle and forward the investment. This is really an overall review of the annually reported figures of fixed investments in 1982.
2. Settle and carry over the capital construction, renewal and transformation projects to 1982. Based on the checkup, the projects to be continued in 1983 are settled and carried over to the 1983 plan, depending of course on the amount of work already done and the funds made available by the bank. The statistical department which reviews the amount of work to be carried over shall require the construction units to schedule definite slots for statisticians without which the statistical department shall not sign the settlement, and the planning department shall refuse to process the carry over proceeding. The planning department shall not assume jurisdiction over the carrying over of any plan unless the amount of work and funding are reviewed and signed by the statistical department and the bank of construction. The reports on the settlement and carrying over of plans prepared by the districts and cities for the prefecture shall be reviewed, cosigned and submitted jointly by the planning commission, the bank of construction and bureau of statistics to the prefecture.
3. Maximize the watchdog role of the bank and statistical investigation. A "Circular on Strengthening Fixed Investment Statistics" has been issued by the prefecture planning commission, the bank of construction and the bureau of statistics to request every construction project having 1 million or more yuan of investment to have a full-time statistician, or a full-time staff to prepare statistical reports for submission to the bureau of statistics and the bank of construction if its investment is less than 1 million yuan. Delay of report, withholding of information and failure to report are not tolerated. Those failing to report shall be listed by the bureau of statistics, and the planning commission shall notify them to stop construction while the bank of construction cuts off funding. If they continue construction in spite of the advice, they shall be considered above-quota construction liable to pay the state a 30 percent charge for energy and communication construction. The circular also asks the planning commissions, the construction banks and bureaus of statistics at all levels to work together and make concerted

effort to investigate and disclose those above-quota projects which exceed the authorized scope. It urges the leadership at all levels to support the work of the banks of construction and statistical departments, and do not interfere with the flow of statistical data to the higher authorities.

4. Strictly implement the statistical system. The interpretation of quotas shall be governed by the ruling of the State Bureau of Statistics. To help strengthen the management of fixed investments and the implementation of the inspection program, the statistical departments of the districts and cities shall include in their reports to the prefecture bureau of statistics an additional list of projects which stay within the scope of planned management, and a quarterly tabulation of all the construction projects for review by the planning commission, the bank of construction and the bureau of statistics so that they may find solutions to problems as they arise.

The adoption of these measures has: 1) produced a full account of the scope of constructions in our prefecture, activated planned management, and collated the statistical figures. 2) They have made supervision through statistical investigation work closely with planned management, on the one hand, and with supervision through bank financing, on the other. The attendant closer relationship between the planning commission, the bank of construction, and the bureau of statistics has helped preserve the inviolability of planning and underscore the watch-dog role of banks and statistical investigation. 3) The fact that leadership at various levels is paying more attention to statistical data strengthens the management of fixed investments.

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CS0; 4006/738

ECONOMIC PLANNING

SECOND STAGE OF TAX REPLACING PROFIT DELIVERY URGED

HK271453 Beijing JINGJI GUANLI Chinese No 8, 5 Aug 83 pp 17-18

[Article by He Zhenyi [0149 2182 0001]: "A Proposal Toward Ways To Improve the 'Substitution of Tax Payment for Profit Delivery'"]

[Text] The experience gained in the experiment on substituting tax payment for profit delivery proves that the introduction of this new tax form is in line with objective needs in developing and perfecting the economic responsibility system and it has a vital role in guaranteeing state financial revenues and expenditures and in correctly handling the relations of interest among the state, enterprises, and workers. Following the development of economic reform and the popularization of the economic responsibility system, it is correct, in order to step up the introduction of the new tax form, to substitute tax payment for profit delivery two stages. It is also necessary that the first stage of the introduction of the new tax form in an overall way be carried out now.

What should be done in the second stage following the completion of the first stage? The following are some premature views that are based on the situations of the previous experiment.

There are some defects in the experiments on the ways of substituting tax payment for profit delivery in the previous period.

First, the methods used in the experiment on substituting tax payment for profit delivery cannot display in an overall way the regulating role of tax collection. In socialist economy, tax collection has an important regulating role in such aspects as production, consumption, distribution, and circulation. Such aspects as tax collection or exemption, the amount of tax collected, the forms of taxation, changes of tax rate, and different tax collecting methods are in a position to limit or encourage production and consumption, to regulate income and interest of various aspects, to promote coordination among specialized departments, and to regulate prices. Of course, these roles are considered from the point of view of tax collection as a whole. This is because, concretely speaking, no tax collection of whatever form is in a position to display its regulating roles in an overall way toward production, distribution, consumption, and circulation. Some tax forms have more monolithic regulating roles while others have wider roles.

For example, production tax has wider regulation role while the role of income tax is narrower. Income tax has a direct role in regulating total income of enterprises but it is not in a position to display its role in encouraging or limiting the production or consumption of certain products. The methods used in the experiment on substitution of tax payment for profit delivery in the previous period mainly represent a reform with income tax as the main aspect and therefore the methods are not in a position to display the regulating roles of tax collection in an overall way.

Second, the methods of the experiment on substitution of tax payment for profit delivery cannot really solve uneven profit and loss among enterprises that are caused by irrational prices and the problem of enterprises willing to work hard when there is big profit and unwilling to work hard when there is little profit. It is because income tax is collected on the basis of the profit of enterprises. Therefore, under the situation in which the tax rate is fixed, the amount of profit gained by enterprises depends on the volume of the profit they make. This is to say, with bigger profit, enterprises are able to gain bigger interest while with smaller profit, their interest will be smaller also. Consequently, the situation remains unchanged, that is to say, enterprises will make profit when they are producing profitable products or they will lose when they are producing the products with little profit. As a result, there is still no way to solve the uneven profit and loss among enterprises that are caused by irrational price and the problem of enterprises willing to work hard when there is big profit and unwilling to do so when there is little profit.

Third, the profit of enterprises depends on comprehensive results of the profit and loss of various products. Therefore, if, under the situation of irrational prices, we do not consider regulating the factors of irrational prices through tax collection and, instead, replace profit by tax by merely relying on income tax and tax collection, it is quite likely that there will appear the situation of rewarding and punishing without a definite standard. That is to say, the achievements made by enterprises through their objective effort may all be taken away while other enterprises may retain part of the wealth that is gained without their effort and this situation is not in the interest of consolidating the economic responsibility system.

Fourth, the purpose of the substitution of tax payment for profit delivery is to strengthen enterprise economic responsibility and to strengthen economic compulsion of enterprises so as to increase external pressure on enterprises and to define further enterprise interest and consequently to integrate enterprise responsibility with interest still more closely and to increase the internal economic motive force of enterprises. The methods used during the previous experiment no doubt have displayed a certain role in this aspect; but the extent of the role displayed is not enough. Because, unlike product tax which is collected following production and sales regardless of profit or loss- income tax is levied only when there is profit; the amount of income tax depends on the amount of profit and there will be no tax when there is no profit. It can be seen that income tax is not economically compulsory, its economic pressure on enterprises is small, and it is weak in guaranteeing financial revenues and expenditures.

In order to perfect further the methods of substitution of tax payment for profit delivery, it is suggested that the replacement should be carried out according to the following during the second stage.

First, the methods of substitution of tax payment for profit delivery now used only for enterprise after-tax profit must be changed and instead the methods of substitution of tax payment for profit delivery that are based on reforming the tax system in an overall way and consolidating and reforming the original industrial and commercial tax should be introduced.

Second, the method of substitution of tax payment for profit delivery with income tax as the main aspect must be changed and replaced by the method with product tax as the main aspect so as to improve the vitality and regulating roles of tax collection in many aspects.

Concretely speaking, it is necessary to do the following:

First, it is imperative first of all to resort to tax collection to eradicate the additional income or loss of enterprises that are caused by objective reasons.

1. Use the method of product tax (also called goods tax) to eradicate the uneven profit and loss of enterprises that are caused by irrational prices. Tax rates must be defined according to the extent of price irrationality and the needs to regulate the production and consumption of certain products; higher tax rates must be defined for excessively high prices on the basis of the higher part of price while excessively low prices must be regulated through lower tax rates. In this way, we will be able not only to eradicate the uneven profit and loss of enterprises that are caused by irrational prices but also to create financial conditions for price reform. In this way, when measures are taken to reform prices, it will not be necessary to regulate the relations of interest among the state enterprises, and workers. It means that this problem can be resolved by merely changing tax rates on the basis of changes in price.

2. The uneven profit and loss among enterprises that are caused by differential income must be eradicated through imposing a resource tax on different grades or a differential income tax.

3. Eradicate the difference in profit among enterprises that is caused by difference in equipment through fund possessing tax.

Second, after the uneven profit and loss among enterprises have been eradicated, it is necessary to resort to income tax, to use the method of accumulating surplus, and to regulate the interests among the state, enterprises, and workers so as to combine enterprises' interests with their economic responsibility.

Third, in the process of reforming the tax system and substituting tax payment for profit delivery, various major tax forms must set up central taxation and local taxation so as to create conditions for reforming the tax system and

implementing a system dividing tax between central finance and local finance to share financial sources. The present method of dividing income between central and local governments on the basis of the administrative regions to which enterprises belong has a serious defect. That is to say, as the income of the enterprises that belong to localities belongs totally to localities and the income of central government enterprises belongs totally to the government, the income of local enterprises is only linked with the interests of localities and has no relations of interest with central finance. Similarly, the income of the enterprises of central government is only linked with the interests of central finance and it has no relations of interest with local finance. In this way, in order to expand their own financial sources, localities may easily take different attitudes toward central and local enterprises. That is to say, localities are likely to give more consideration to local enterprises because the income of these enterprises belongs to localities and on the other hand they will not be concerned with central enterprises because the income of these enterprises has nothing to do with localities. Objectively, this situation will strengthen "local ownership" and give rise to such unhealthy phenomena as departmentalism, restricting one's activities to designated areas, regional blockades, squeezing of the big by the small, and repetitious construction. But these shortcomings can be overcome when the tax dividing system of sharing financial sources is implemented. The so-called sharing of financial sources means that each financial source must be turned into the source of the revenues of both central and local finance. In this way, the interests of central government will be directly integrated with that of localities. Thus both central and local governments will share a financial source, no matter who exploits this source. In the matter of adding financial sources, central and local government will "share weal and woe" and the situation in which localities treat enterprises differently will be overcome in the interest of eradicating the tendency of "local ownership" and preventing such shortcomings as restricting one's activities to designated areas, squeezing of the big by the small, and repetitious production and construction.

Fourth, in implementing product tax, effort must be made to prevent repetition in collecting tax so as to promote coordination among specialized departments. Product tax can be collected through tax deduction and in this way, it is not necessary to implement propagation tax. In this way, the tax system will be simplified to accord with the present level of accountancy in our country.

The above-mentioned methods of substitution of tax payment for profit delivery have more advantages than the methods that are being experimented with now.

First, they are in the interests of eradicating the uneven profit and loss among enterprises and decreasing the unhealthy tendency of enterprises being willing to work hard when there is big profit and unwilling to do so when there is little profit.

Second, they are in the interests of displaying in an overall way the regulating role of tax collection and price reform.

Third, they are in the interests of reforming the financial system.

Fourth, they are in the interests of strengthening enterprise economic responsibility and increasing enterprise external economic pressure and internal economic vitality.

Fifth, it is unnecessary for income tax to have many tax rates and this situation is in the interest of formulating the related law.

Of course, compared with the present methods, the above-mentioned methods also have a shortcoming, that is, they require more and complicated work. But it is worthwhile to do such work for the interests of carrying out economic reform in an overall way and substitution of tax payment for profit delivery in a still better manner.

CSO: 4006/014

ECONOMIC PLANNING

HUBEI MEETING ON INDUSTRY, COMMUNICATIONS ENDS

HK280225 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 27 Sep 83

[Excerpts] A Hubei Provincial forum on industry and communications work, convened by the provincial government, concluded in Wuchang today. Provincial CPC committee secretary and Governor Huang Zhizhen delivered a summation. Vice Governor Guo Zhenqian spoke on enterprise consolidation work in the previous period and arrangements for future work.

The meeting held: In further promoting enterprise consolidation, we must focus on the following points:

1. Strengthen leadership over enterprise consolidation work. Principal responsible comrades of party and government at all levels must personally grasp this work. Prefectures, cities, and counties that have not yet set up enterprise consolidation leadership groups and work organs must do so before mid-October.
2. Grasp consolidation of key enterprises. This means that we should first grasp 43 large and medium backbone enterprises with annual tax and profits exceeding 10 million yuan, and bring them into the advanced national ranks as quickly as possible. Second, we should grasp enterprises running at a loss and set them deadlines for getting results in reducing deficits and increasing surpluses. Third, we should grasp consolidation work in 77 key enterprises focusing on 35 key products including automobiles, cement, bed sheets, steel plate for shipbuilding, special types of boilers, washing machines and paint. These enterprises should become spearheads in the province's industry as quickly as possible.
3. Uphold high standards and further promote the rectification of leadership groups.
4. Grasp all-round consolidation with economic responsibility systems as the cardinal link. After the enterprise leadership groups have been rectified, we must spend time straightening out labor organization, financial management, and fiscal and economic discipline, strengthen basic work, and further promote the economic responsibility systems.
5. Strengthen ideological and political work, promote the building of the worker force, and continually improve its political, cultural, and technical qualities.

CSO: 4006/016

ECONOMIC PLANNING

FIXED INVESTMENT FUND STATISTICS REPORTED INADEQUATE

Beijing TONGJI [STATISTICS] in Chinese No 7, 17 July 83 pp 7-8

[Editorial]

[Text] A crucial problem affecting the development of the national economy today is to impose rigid control over the scope of fixed investment to achieve rational use of funds and cost-effectiveness of investment. To ensure economic stability and further development, the state has been working on various measures to resolve this problem. To provide reliable data on the true situation required by the state to strengthen planned management and guidance of fixed investments, resolute measures are required to strengthen the investment fund statistics and reinforce the statistical services. The statistical departments at all levels must abide by the spirit of the decisions of the State Council, and focus on reflecting the situation and problems affecting the scope, direction and effectiveness of investment so as to place statistics in a better position to serve and oversee the socialist modernizations.

First, it must reflect truthfully the scope of construction projects. A guiding principle of economic construction is to keep the scope of construction projects compatible with the national wealth. The economic readjustments of the past few years which reduced the scope of excessively large-scale construction projects have put China's national economy back on the path of stable growth. However, rapid increase of fixed investments has been upsurging since the latter half of last year, and the trend of expansion is still on the rise this year. We must have accurate figures on fixed investments and statistical analysis of the scope of construction projects to provide the data for more effective control of the scope of construction.

A leading comrade of the State Council pointed out not long ago that a unified concept of fixed investments is vital to the achievement of a comprehensive balance of the national economy. However, it is unwise to impose indiscriminate restrictions on fixed investments. While investment in capital construction should be strictly controlled, investments in technological transformation should enjoy more flexibility. Consequently, capital construction and technological transformation, the two distinct components of fixed investment, should be studied and analyzed separately. We must abide by the principle of keeping capital construction and technological transformation separate and

distinct according to the nature of a project, no matter how it is designated and funded. Only by doing so can we reflect realistically the true scope of capital construction and the way to control it, and leave greater flexibility to technological transformation.

A spectacular feature of the rise of capital construction investment since last year is the rapid increase of the investments locally raised at various levels. To cope with the problem of locally raised capital construction investments which exceed the plans and quotas set by the state, the state has ruled to impose a 30 percent levy for energy and communication construction on the above-quota investments. It is, therefore, vitally important to reflect accurately what the locally raised capital construction investments are really for. Now, there are some localities and units which keep expanding the scope of above-quota capital construction under the guise of maintenance, repair, renovations or simple construction, and do not report truthfully to the higher authorities. This is a breach of the state regulations. The statistical departments should work closely with the financial departments and the banks to exercise coordinated statistical, financial and banking supervision in order to provide the state with accurate comprehensive statistics on capital construction projects funded by various sources of revenue.

Second, it must analyze the direction of investments and encourage rational utilization of construction funds. A guiding principle of economic construction is to concentrate funds to safeguard the key projects. We must abide by this principle to strengthen the statistics and analysis of the directions of investments in the following two areas. The statistics on capital construction projects should reflect how the key constructions, such as energy and communication, are safeguarded, analyze the ratios of investments, and expose diversions of funds to duplicate and ill-advised construction projects. To implement the program of the CPC Central Committee to safeguard key construction, the State Planning Commission and other related departments have selected, from among the large and medium projects now under construction, 70 key projects to receive priority investments and materials and complete those projects within reasonable time limits. All localities and departments are urged to do as well in these key construction projects as was done for the 156 projects of the "First 5-Year Plan" period. We must go deep into the realities to conduct investigations and studies, and set up direct lines of contact to reflect regularly whether the initial parts of these key construction projects have been completed, whether the progress of the construction meets the requirements of the state, whether they are accorded priority assurances of funding, materials and work force, and whether they are constructed on time in specified quality and quantity, and put into production promptly and profitably.

According to the state requirement, the projects scheduled for renewal and transformation should be premised on technological advancement to bring about intensive expansion of reproduction. Today the projects scheduled by some enterprises for technological transformation are in reality capital construction projects, especially the ill-advised expansion of the processing industry which not only wastes the funds for technological transformation, but also aggravates the shortage of energy resources and communication service. We must keep accurate statistics on the nature and purpose of the

of the projects scheduled for technological transformation investment, and distinguish which are really for intensive renewal and transformation and which are for extensive expansion. Those projects scheduled to increase production should be analyzed to see whether they rely on technological transformation to increase production and whether they increase the production of commodities in short supply. To do key technological transformation well and control the civil engineering works of the scheduled projects, any such projects which require a total investment greater than 10 million yuan, and any single project with new additional construction exceeding 30 percent of its original structural area shall be treated by the state as capital construction. The statistical departments must observe such projects separately.

Third, it must evaluate and analyze thoroughly the cost-effectiveness of investments against the economic returns they generate. First of all, consider the macroeconomic effectiveness of fixed assets in the light of the overall national economy. The analysis of the scope of construction projects and the direction of investments should go hand in hand with the analysis of the cost-effectiveness of investments. All the projects, especially the large- and medium-scale construction projects and above-quota projects, should be evaluated and analyzed against the construction time, construction cost and returns derived from actual production. Dissect and analyze a typical case taken out of ill-advised constructions or projects, which overrun budget limits, fail to meet the construction date, and do not operate efficiently after going into operation, to identify the causes of their failures, and reflect them to the responsible departments.

While strengthening fixed investment statistics, we should also improve the construction industry statistics. All these are needed to upgrade the quality of the statistical data on investments and provide seasonable information on the conditions of construction projects.

To discharge satisfactorily the task of compiling statistics on fixed investments, we must train cadres as we increase strength of the investment statistics staff. Each level should be responsible to give short-term training once or twice a year to the incumbent statistical cadres, and strive persistently to raise their professional level and capability to a degree commensurate with this increasingly demanding task.

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AGGREGATE ECONOMIC DATA

BRIEFS

XINJIANG INDUSTRIAL OUTPUT--Total industrial output value of Xinjiang in August showed a rise of 3.12 percent over July and an increase of 15.9 percent over August last year. Total output value from January to August rose by 16.43 percent over the same period of last year and amounted to 69.66 percent of the year's plan. Growth of light industry continued to exceed that of heavy industry. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 0100 GMT 15 Sep 83 HK]

JILIN JANUARY-AUGUST REVENUE--The revenue and expenditure of Jilin Province have shown marked improvement since the beginning of this year. In January-August period, the province fulfilled 69.3 percent of this annual revenue quota, registering an 11.3-percent increase over that of the corresponding 1982 period. As calculated by the end of August, industrial enterprises covered by the provincial budget had fulfilled 81.3 percent of their annual profit delivery quota, showing a 16.9-percent increase over that of the corresponding 1982 period. The amount of deficits of money-losing enterprises showed a decline of 49.5 percent from that of the corresponding 1982 period and the number of money-losing enterprises dropped from 41.3 percent in early this year to 24.4 percent. The province also fulfilled 72.1 percent of its annual industrial and commercial tax quota in the first 8 months of this year, a 12.2 percent increase over the same 1982 period. [Excerpts] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 25 Sep 83 SK]

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ECONOMIC MANAGEMENT

RESPONSIBILITY SYSTEM PROBLEMS IN COMMERCIAL ENTERPRISES

Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 3, 25 Jun 83 pp 66-70

[Article by Dong Kuuchang [5516 0036 2490], Wu Jinming [2976 6855 6900], Pan Zheng [3382 2973], Wang Tiehua [3769 6993 5478]: "The Content and Some Problems of the Responsibility System in Commercial Enterprises"]

[Text] The responsibility system in commercial enterprises is a new pattern of enterprise management which made its appearance in the field of commodity circulation and service trades in the wake of responsibility systems in agricultural and industrial production. Early in 1981, a few commercial units and service trades in Beijing Municipality began to experiment, and another considerably larger number began to institute the system on trial in the latter part of that year. To seek out the actual conditions and sum up experiences, and moreover to explore how to proceed from now on in the further promotion and perfection of management responsibility systems, we visited several retail businesses in succession, such as the Baihuo Department Store, the Dongfang Market, the Xidan Emporium, the Tianquiao Emporium and the Dongsì Department Store and did some investigations. Judging by conditions at these units, remarkable results have been achieved with the introduction of the management responsibility system, but we discovered at the same time that there existed quite a few problems that deserve our further exploration.

I. Outstanding Results Since Trial Introduction

Retail sales enterprises that introduced management responsibility systems started out by conducting business operations under contract. At that time, due to the fact that many problems in the management responsibility system had not yet been sufficiently clarified, there was still a lack of specific and uniform methods as to how to carry out this system. However, because the management responsibility system integrated to a certain degree the responsibility, power and interest of the enterprise and its individual staff and workers, it aroused the enthusiasm of the enterprises and the staff and workers. Although the trial implementation has been going on for only a short time, some striking results have been achieved, of which the main ones are the following:

1. It induced the enterprises to fulfill more effectively all the various economic quotas.

Instituting the management responsibility system achieved to a certain degree the union of responsibilities, power and interests and brought realization for the broad masses of staff and workers that only by fulfilling the state plan and overfulfilling the various targets (including quality of service, etc.), and by gaining good results in all business operations, can greater contributions be made to the state and can the individual worker gain a certain amount of material benefits, on the premise of greater revenue for the state and larger profits to be retained by the enterprise. For these reasons, the enterprise and the broad masses of its staff and workers concerned themselves in every respect with the business activities of the enterprise and worked hard to fulfill and overfulfill the various quotas. After the trial introduction of the management responsibility system, these stores all fulfilled their quotas very effectively. For various reasons, the total sales and profits of these stores during the first 9 months of 1981 were very much lower than during the corresponding period of 1980. The total sales of the Baihuo Department Store from January to August of 1981 were 2.1 percent lower than during the corresponding period of 1980, and profits were down 4 percent. In July and August alone, the decline was 11.7 and 10.5 percent, respectively, compared with the corresponding period in 1980. However, from September with the introduction of the management responsibility system, the declining trend was quickly turned around. Comparing the period from September to December with the corresponding period in 1980, total sales had increased by over 2.6 million yuan and profits increased by over 360,000 yuan, achieving in these 4 consecutive months the highest ever or a considerably high level. Conditions in the other units were more or less the same.

2. Egalitarianism was overcome and the enthusiasm of the enterprises and their staff and workers was aroused.

In the present experiments with the management responsibility system, the units adopted as their evaluation norms the total amount of sales, the level of profits, the variety of product mix and the quality of service. When it was established through a comprehensive check of all these norms that the enterprise indeed made a great contribution to the state, the enterprises was allowed to retain appropriately more of its profits, and the individual workers were allowed appropriately more for distribution among themselves. This approach is basically an application of the principle of more gain for more work, little gain for little work, no gain for no work, and it breaks with the past practice of equal treatment regardless of success or failure of business operations and equal distribution regardless of a man's work performance. It amounts to rewarding the advanced and spurring on the backward; it arouses the enthusiasm of the cadres, staff and workers and produced a new atmosphere in all quarters. For instance, attendance of staff and workers went up, unjustified absence from work or duties declined, hard work was done eagerly and willingly and more effort was made to learn professional skills and technologies. Cases of not striving to make progress, of drifting along aimlessly and of wasting time declined. Service attitudes changed for the better and service quality improved. More and more praises were heard from customers and cases of indifference,

clashes with customers and violations of work discipline declined, etc., etc. On introduction of the management responsibility system, the methods of computing rewards and bonuses was changed, and the rules disallowing rewards were abolished. The amount of reward or bonus was made dependent on how well tasks were completed in that month, and this generally resulted in better attendance figures in the stores. In the Baihuo Department Store, sick leave during September declined by over 2,000 working days, and attendance rose 2.2 percent, compared with the preceding period. In the North Dongsì Department Store average monthly attendance was up to more than 97 percent in the 3 months of experimenting with the management responsibility system. Comrades employed in the department store section of the Tianqiao Emporium insisted on using time after regular work hours to check and bring in goods to ensure that the next day's sales were well prepared for.

3. Strengthening of the concept of economic accounting and improving enterprise management.

After instituting the management responsibility system the various enterprises generally strengthened quota management, carried out accounting for each counter service team, responsibility falling on each individual, and strict scrutiny of accounts. Each enterprise and every single individual staff and worker therefore gained a stronger concept of economic accounting, did careful calculations and strict budgeting, cut down expenses and set very high economic norms compared to those throughout past history. For instance, in the course of instituting the management responsibility system, the North Dongsì Department Store had a reduction of 8.96 percent in its expenses and a 3.9-day acceleration of turnover of capital funds, compared with the corresponding period in 1980. In the past, the cloth sales team No 4 of that store used to take up 8,000 or 9,000 yuan of extra capital, but after the introduction of the management responsibility system, senseless storage was reduced by almost 10,000 yuan. By a more sensible adjustment of the storage setup, during 4 months that even showed a rise in sales, the capital taken up by this sector was able to be reduced by 27,750 yuan and the turnover accelerated by 4.6 days.

4. Raising service quality and providing better facilities for the people's living conditions.

After experimentally introducing the management responsibility system, there was a marked change for the better in service attitude. It became increasing practice to welcome customers warmly, to eagerly recommend and introduce goods, to help the customers make their selections and serve them as good advisors. Cases of "not wanting to be bothered," sheer indifference and taking no notice of customers, of getting into conflicts with customers, happened much less often. There are many ways and means to show solicitude for the interests of the customers and to help them, for instance, undertaking the shipment of larger pieces of merchandise for customers from outlying districts, guaranteeing the return and exchange of sold merchandise, making home visits to repair the television sets of customers and sending out goods by carts from the factories, etc. Between August and November, the North Donsì Department Store sent merchandise out by cars on 215 occasions, thereby expanding its sales by 64,345 yuan and providing better convenience for the masses to do their

purchasing. In the past, the assortments of small merchandise were frequently incomplete, which adversely affected the standard of living of the people. After the introduction of the management responsibility system, several stores made merchandise assortments a norm that teams and groups had to be evaluated by. As a result, assortments did not decrease further, but rather increased. At the North Dongsì Department Store, shoe polish alone was sure to be available in 5 or 6 colors and 10 to 12 varieties.

II. The Content of the Management Responsibility System

The above-stated facts signify that the direction of implementing the management responsibility system is correct, and that its effects are outstanding indeed. However, in the course of its experimental introduction we also discovered a lack of clear, definite and uniform understanding of its content. For instance, some are of the opinion that the management responsibility system has three forms: one being contracting for profits and self-responsibility for profits and losses, the second being piece rate wages and basic wages with additional share-distribution wages, and the third, fixed quota control with bonuses linked to profit. Others put forward the idea that the management responsibility system has eight forms centering around the distribution of profits, others again claim that it has four forms, etc. There are even those who compress the whole management responsibility system into the one single word "contracting," that is, to contract for profits and to cut losses, proclaiming "once contracted, things become efficient, lively and different," as if by only contracting for profits and to cut losses all problems in the business management of enterprises could be solved with the greatest ease. This understanding and way of acting, making out that turning losses into gain would be the only content of the management responsibility system, not only created a series of contradictions, but caused some enterprises to deviate from the correct direction, clash with the national plan, run counter to the state's general and specific policies and do harm to the interests of the consumers.

Retail commercial enterprises are trading units that sell merchandise directly to the consumers. The condition in which the producers function as sources for such merchandise is of the greatest importance in the business operations, which are also influenced by changes in consumer demand, the scale and the location of the enterprise, its scope of business and its specialties, the reputation of the enterprise, etc. The profits of an enterprise, therefore, do not alone reflect its level of business operations, nor the work performance of its staff and workers. For instance, the profits earned by department stores and by nonstaple foodstuffs businesses, although both commercial enterprises, are quite different. There is also a wide disparity between the profits from high- and medium-quality goods and from small articles of daily use, although both are sold in the same department store. Moreover, the one-sided emphasis on the profit margin as an important norm in evaluating enterprises, allowing high-profit enterprises to retain more of their profits and more distributions to their staff and workers, would of necessity stir up a scramble for profits, the "money is everything" mentality. We must, therefore, not set profits as the only evaluation norm when instituting the management responsibility system.

In our opinion, the content and form of the management responsibility system must be uniform. We must not take one sector of the entire system and declare it to be an independent form, because we would then split up the comprehensive and uniform content of the system and cause confusion by allowing each enterprise to apply the system at will according to its own understanding and thus deviate from the correct direction. What is now being designated as various forms of the management responsibility system, such as "contracting for profits," "piecework wages," etc., are actually only the profit and bonus distribution methods and wage patterns of the management responsibility system, i.e., only constituent parts of the system. In our opinion, the management responsibility system is a kind of business management system that is characterized by being guided by the state's plan and policies and that closely integrates responsibilities, power and interests; its core objective is the raising of economic results, and it aims at serving production and at satisfying the standard of living demands of the people.

The basic and special characteristic of the socialist economy is the planned and proportional development of the national economy, which is also the objective demand of the basic socialist economic law. Commerce is an important organic component of the national economy. It must be conducted under the guidance of the state plan and in accordance with the party's general and specific policies. It must integrate the concrete conditions of the enterprises and correctly determine their various plans, overcome blindness in actions and must continuously work to satisfy the demands of industrial and agricultural production and the demands of the people concerning their standard of living. It must stay the correct course, maintain high quality of service and strive for good economic results.

The management responsibility system practiced by commercial enterprises is characterized by the close integration of responsibilities, power and interests, and "responsibilities" are at the core of these three (referring mainly to economic responsibilities). Even though responsibility of the enterprises and their staff and workers in all business activities is first of all a responsibility toward the state, they also simultaneously bear responsibility toward the consumers. These responsibilities are not only borne by the enterprise, there must also be a linkage between the responsibilities of the responsible departments in the enterprises with the responsibilities of the enterprises, and this responsibility must be effected and strictly enforced at all levels of the functioning machinery as well as of all cadres, staff and workers. Responsibility must be enforced at all levels and person by person. This is the only way that the enterprises will be able to fulfill more effectively the tasks that they have taken on.

Responsibility cannot be separated from certain powers. The enterprises must have the powers to manage their business operations, power over the use of capital funds, power of controlling their property, power over personnel employment, etc. These are important preconditions for correct management and for discharging all responsibilities. Practice has confirmed that if no responsibility is taken on by those who hold power, it will easily lead to abuse of power and irresponsible directions, but if those bearing responsibility have no power, they will be like bound hands and feet, and it will be impossible to do necessary work and to have anyone fulfill his responsibilities.

Economic responsibility must also be linked with economic benefits, as only then will there be an internal motive force in enterprise operations. Carrying out the management responsibility system requires that we attach importance to the principles of material benefits. Only if the principle of "from each according to his ability, to each according to his work" is earnestly followed, if more work earns more gain, if there are rewards and penalties and if both are clearly defined, can the socialist enthusiasm of the broad masses of cadres, staff and workers be fully aroused and can the goal be achieved of getting a larger circulation of goods with the least consumption and use of manpower and materials.

After instituting the management responsibility system, the enterprises must raise the quality of service; this is determined by the character of socialist commerce and its position and role in the four modernizations drive. An enhanced quality of service will better demonstrate the party's and state's concern for the standard of living of the people, will promote business expansion of the enterprises so that the state's fund accumulation will grow, and will better satisfy the needs of industrial and agricultural production and the needs of the people in their livelihood. Operating the management responsibility system means, on the one hand, that such economic norms as sales, profits, expenses, turnover of capital and accident rates must be examined and verified, and, on the other hand, that the execution of administrative policies, the quality of service and the service attitude must also be examined and verified. The examination and verification of economic norms is a rather complex and tedious task in which we still lack mature experiences. In general, when determining the various economic norms it is necessary, on the one hand, to reflect the average advanced level of the trade in question and, on the other hand, the developmental level of business management in the enterprises, that is, one must avoid "whipping the hard-working ox," but also not "protect those that lag behind." For instance, some enterprises use the method of a rollover calculation of the preceeding 3 years' average profit appropriately adjusted according to the advanced level of the same trade and same type of enterprise to determine the base for an increase in profits which the enterprise is allowed to retain for its own use. Some enterprises determine the norm for labor efficiency on the basis of sales volume and the personnel situation according to the average advanced level of the preceeding 3 years. These methods are at present quite reasonable and also easily acceptable.

III. Some Related Questions

The institution of the management responsibility system in commercial enterprises involves a wide range of things and is of a strong policy-aware nature. To ensure a health development of the system in the right direction, the experience in its experimental application call for the proper disposition of the following few problems:

1. The Relationship Between Implementation of the Management Responsibility System and the Raising of Economic Results

In his report on the work of the government at the Fourth Session of the Fifth National People's Congress, Premier Zhao Ziyang pointed out: "Raising the

economic results by every possible means and in all the various areas, such as production, construction, circulation, etc., that is the key problem." Commerce is shouldering the task of organizing the circulation of commodities. By purchase and sales activities it brings the products from the producing areas to the areas of consumption and thereby promotes the development of industrial and agricultural production and satisfies the needs of the people in their daily life. Commercial departments must pay major attention to the raising of economic results, and the management responsibility system carried out by commercial enterprises is indeed one important measure to raise economic results.

Implementation of the management responsibility system can quite effectively solve such problems as viewing enterprises merely as appendages of the administrative organizations and denying them their relative independence, of overly centralizing management powers, of not separating state and enterprise affairs, of too much control, of too rigid a centralization, of the "one big pot" mentality and egalitarianism in distribution. The system will instill enthusiasm in the enterprises and their staff and workers to operate and work effectively, to tap potential, to be concerned about business operations, to improve management and to work hard so as to provide the excellent foundation for a rise in economic results.

Instituting the management responsibility system will be beneficial for the comprehensive reorganization of enterprises. It will enhance the labor organization in enterprises and strengthen work discipline. It will promote perfecting the accounting systems, strengthen the management of financial affairs and will also promote adjustments in the leadership groups of the enterprises. It will strengthen, under the guidance of the party committees, the managerial responsibility system, the system of staff and worker representative assemblies and the command system in any business operation and management, each of which shall have a director at its head.

Instituting the management responsibility system will not only arouse the work enthusiasm of cadres, staff and workers, but also arouse their enthusiasm for studies so that the great number of cadres, staff and workers will be stimulated to make great efforts in their studies of general cultural and scientific topics, in the study of professional skills and technologies and of business management. This will not only help raise economic results, but will also bring about a major change of great strategic significance in the entire future contingent of our cadres, staff and workers.

Raising economic results must be the fundamental point of departure in all economic work, but it is not the sole objective of business activities of commercial enterprises, as it is also not the sole content of the management responsibility system. It is even less permissible to equate the mere quest for profits with the achievement of economic results. The fundamental objective of socialist commerce is to serve production and the satisfaction of the people's needs in their daily life. Commercial enterprises must, therefore, not only pay all their attention to the economic results, but also continuously improve the management of their business operations, speed up commodity circulation, reduce expenses, damage and waste, raise labor efficiency, and, moreover, give major attention to the prestige and interests of party and state and attach importance to the interests of the consumers.

2. The Relationship Between Carrying Out the Management Responsibility System, on the One Hand, and the Business Accounting System and System of Personal Responsibility of Each Worker at His Post, on the Other Hand

The introduction of the management responsibility system in enterprises is a major reform in business management and also a great step forward in raising the level of business management. What is its relationship to the business accounting system and the system of personal responsibility of each worker at his post, the latter two systems having been introduced earlier in the past? To clarify this question it is necessary to review the way these latter two systems had been carried out.

The system of business accounting is an institution put into practice in the commercial organizations during the early fifties in order to improve business management in the enterprises. It prescribed that enterprises that practice business accounting must have commodity circulation plans, financial plans, must have a certain amount of their own capital funds and a fairly sound accounting system, must keep independent accounts of profits and losses and have authority to conclude purchases and sales contracts with other units, also authority to open their own bank accounts, to take on loans and settle accounts with other units, must have the legal status of legal persons and operate their businesses independently under the unified guidance and control of the state plan.

In the sixties, the commercial organizations (mainly retail enterprises) instituted a system of personal responsibility for each person at his post. It was a method of apportioning responsibility and tasks to each work position in accordance with the internal structure of the enterprise, so that each person, from director down to each individual worker and staff member, had his own specific work assignment, sphere of responsibility and work norms to fill. The result was that each person's responsibility was clearly defined, every job had someone responsible for it, and this facilitated centralized and unified leadership in the enterprises, a more effective mobilization of the enthusiasm and creativity of cadres, staff and workers and a great improvement in the business management and quality of service in these enterprises.

Because of the "leftist" errors in operating our country's original economic system and in its guiding ideology, the business accounting and personal responsibility systems in commercial enterprises restricted all decisionmaking powers of the enterprises and ignored the principle of material benefits. There is no direct link established in the internal management of the enterprises between the various rules, regulations and the results of business operations with the material interests of the enterprises and of their staff and workers. For these reasons the mentioned systems could not fully play their due role and could also not be maintained for long.

The management responsibility system which certain commercial enterprises in Beijing Municipality put into practice on a trial basis, beginning in 1981, demanded that the enterprises, under the guidance of the state's plan and policies, effect a combination of responsibility, power and interests, guarantee completion of the commodity procurement and sales plan, guarantee an increased circulation of commodities and guarantee that no loss or damage will be suffered

by all the property of the enterprises. On this foundation, it became possible to increase the state's revenue, to have the enterprises retain more profits for their own use and to have the individuals receive more benefits. The results of the business operations were linked with the material benefits for the enterprises, their staff and workers and much enthusiasm was aroused among the staff and workers.

We see from the above-stated facts that the management responsibility system on the one hand and the business accounting and personal responsibility systems on the other hand are neither independent of each other, nor do they conflict with one another. The latter two systems are the foundation for the former, and the former is an evolution of the latter under the new historical conditions. Only by basing it on the foundation of a strong business accounting system and a system of personal responsibility, can the management responsibility system effect quota management, norm designations for every group, fixed responsibilities down to every single individual and prompt checking and verifying. Otherwise, it would hardly have been possible to institute the management responsibility system or impossible to operate it effectively. However, if no linkage is established between the results of business operations and the results of the work of the individual workers and their material benefits, if the old pattern of salaries and wages, distribution of profits, rewards and bonuses would have been continued, we would never have been able to overcome egalitarianism, we would be left unable to arouse the enthusiasm of the enterprises and their staff and workers, and the business accounting and personal responsibility systems would continue to exist in name only without any substantial effectiveness.

3. The Relationship Between the Management Responsibility System and Distribution According to Work.

Distribution according to work is a socialist system of distribution. Its core idea is that distribution to the individual should be measured by his contributions. It means that the amount of consumer goods that the individual is given is determined by the amount and quality of work that the worker contributed to society; it means then that pay is drawn according to work rendered. The practical experiences in the trial operation of the management responsibility system in our municipality since 1981 prove that there is an objective link between the management responsibility system and the principle of distribution according to work, that is, that carrying out the management responsibility system facilitates the implementation of the principle of distribution according to work. Only by firmly upholding the principle of distribution according to work can excellent results be achieved in the management responsibility system. The management responsibility system acknowledges the principle of material benefits and establishes a very close integration of the economic responsibility taken on by an enterprise and its staff and workers with certain material benefits; especially in certain units and types of work which are suited for patterns of piecework wages or fixed wages with added percentage shares of profits, integration is particularly close. Even in units paying fixed wages, a certain progress can be seen in their contracting for certain quotas, rewarding overfulfillment and penalizing deficiencies and not giving an equal bonus to everyone. In the distribution of bonuses we must overcome

egalitarianism. Within the standards prescribed by the state, there must be an overall planning which takes all factors into consideration. Bonuses must be distributed in a reasonable way, on the one hand, there must be differences because of differences in contributions so as to arouse the enthusiasm of enterprises, staff and workers, but consideration must also be given to nearby neighbors, and state regulations must not be exceeded.

4. The Relationship Between Implementation of the Management Responsibility System and Strengthening Ideological and Political Work

The results of implementing the management responsibility system are very conspicuous. Many problems that could not be solved in the past begin to find their solutions. Hence, there are people who think that it is more effective to carry out the management responsibility system than to do ideological and political work, and that ideological and political work may be relaxed. Actually this is not the case. Practice proves that in carrying out the management responsibility system we cannot allow a weakening of ideological and political work, but that we must rather strengthen ideological and political work and, doing so vigorously, ensure the smooth execution of the management responsibility system.

First, only by strengthening ideological and political work, can we have the cadres, staff and workers overcome old acquired customs and erroneous ideologies, raise their knowledge of the management responsibility system, establish confidence in an effective application of the management responsibility system and ensure the smooth operation and continuous perfection of the system. The management responsibility system is a system of business management. Only thoroughgoing and painstaking ideological and political work, educating the people to eliminate the influences of "leftist" ideologies, breaking with old traditional viewpoints, raising their conception of the management responsibility system and straightening out their attitudes, can we implement the management responsibility system on a firm ideological foundation.

Second, only by vigorous ideological and political work can we have the cadres, staff and workers deal correctly with the contradictions between collective and individual interests and the contradictions between long-term and immediate interests, and ensure right direction, correct path and good results for the management responsibility system. However, there still may be people who only see the outer appearance and do not look at the substance, who only look at one part and ignore the overall situation, who only put emphasis on individual interests and immediate interests and ignore the interests of the collective and the long-term interests, who in all matters think "money above all" and who by their actions do harm to the interests of the state, the collective and of other people (including the interests of other staff, workers and consumers). To cope with these problems, we must educate the cadres, staff and workers through ideological and political work to gain a correct understanding of the relationship between higher bonuses and increased labor efficiency, between prosperity and strength of the state and better living conditions for the individual. We must foster in them a concept of the whole situation, have them correctly deal with the relationship between the interests of the state,

of the collective and of the individuals and establish in them the mentality of being masters of their own affairs and a communist work attitude.

Third, the implementation of the management responsibility system and more vigorous ideological and political work must supplement and complement one another, must be closely integrated with each other, and the one must not be neglected at the expense of the other. Otherwise, if we do not strengthen ideological and political work, it would hardly be possible to implement the management responsibility system or deviations would be the results. However, if the ideological and political work in the units that practice management responsibility systems were not linked to the problems arising from the operation of the management responsibility system, it would also lead to a weakening of the effects of ideological and political work.

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ECONOMIC MANAGEMENT

GOOD RESULTS ACHIEVED IN TECHNICAL COOPERATION

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[Report by Xu He [1776 5440]: "Departments of Industry and Communications and Affiliated Organizations of Our Province Achieve Marked Results in Overcoming Problems Through Technical Cooperation"]

[Text] In our province, the drive to improve industrial product quality and lower consumption of energy and raw materials through technical cooperation has brought about marked results. By early September, the 914 enterprises which participated in technical cooperation had succeeded in resolving 831 technical problems and thus added a total of 18 million yuan to enterprise income. In this technical movement, our province has succeeded in producing 59 new products, of which 46 have reached the advanced international level.

In order to rapidly change the situation of poor industrial product quality and variety, high consumption of energy and raw materials in industrial production, and poor economic results in our province, the provincial government decided earlier this year to launch a technical cooperation drive throughout the province so as to urge enterprises to raise their product quality to an advanced level. Since March this year, 914 out of more than 1,400 enterprises in our province have participated in this drive. They first analyzed the conditions of their products and compared them with the best level in history marked by their own enterprises, with the advanced level in the same trade at home, and with the advanced level in the same trade at home, and with the advanced international level. On this basis, they worked out a plan for tackling more than 3,700 technical problems. They gave priority to key products which have a great bearing on the national economy and the people's livelihood, which may lead to greater output value and higher profits, which have always been named good quality products by the authorities, and which are in short supply. At the same time, they used various forms, such as inviting public bidding and signing contracts, to organize technical cooperation. In this drive, various departments, localities and enterprises all treated the technical cooperation in tackling quality problems as a task, and ensured its smooth development. The provincial petrochemical industrial department, Lanzhou city, and Tianshu Prefecture even held on-the-spot meetings to spread advanced and successful experiences in tackling technical problems so as to promote the drive.

This technical drive has markedly improved industrial product quality and variety in our province and has achieved satisfactory economic results. The provincial machine building industry department has decided to develop 487 new products within 3 years and to produce their major products according to international standards. The department also has mobilized the masses to work out plans for tackling technical problems in order to achieve this objective. So far, this department has succeeded in resolving 21 technical research projects out of the 534 technical problems that they have planned to tackle. In the drive to improve product quality, the Liancheng aluminum plant steadily enhanced the rate of first class products in the first half of this year, and lowered the consumption of electricity for producing each ton of aluminum to 15,793 kilowatt-hour, which is 71 kilowatt-hour less than the lowest level in history recorded by this plant. The increase in the production of first class products and the decrease in energy consumption resulted in increasing the income by 7.17 million yuan over the same period last year.

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ECONOMIC MANAGEMENT

PRC JOURNAL DISCUSSES SHENZHEN'S PRICE SYSTEM

HK200505 Beijing ZHONGGUO JINGJI WENTI in Chinese No 4, 20 Jul 83 pp 55-58

[Article by Li Kehua [2621 0344 5478]: "A Study of The Price System Pattern in Shenzhen Special District"]

[Text] After the two lines of barriers have been basically completed and put into use, the Shenzhen special zone, under the guidance of state plans, emerges on the eastern horizon as one which uses market regulation as the principal mechanism for regulating the economy of the special zone. The problem that follows on the heels of its emergence is: How to frame the whole special zone's price system? We are confronted with a problem which will become the focus of attention both at home and abroad. The author of this article thinks that after its completion, market prices in the Shenzhen Special Zone should differ from those in the mainland (nonspecial zone) and those in international markets such as Hong Kong and Macao. Under the guidance of planning, they are characterized by the fact that they are more open and more flexible. The dominant forms of prices should be planned floating prices and free floating prices. The following are my superficial views on this problem.

A Basic Outline of Shenzhen Economic Zone's Price System Which Centers on Planned Floating and Free Floating Prices

Because of its close ties with the international market and the market of the nonspecial zone, the market of the Shenzhen special zone, which is separated from the nonspecial zone, should become an open oriental purchase center guided by planning. Its price system, with a setup and requirements characteristic of a socialist special economic zone, will be more flexible. The outline of the price system is as follows:

1. The dominant forms of prices should be planned floating prices and free floating prices. The free floating prices should be applied to the export industrial and agricultural products and the products produced by enterprises established exclusively with foreign capital. The planned floating prices, with a relatively greater floating range, should be applied to the commodities for the domestic market of the special zone, including the daily necessities which are of vital importance to the lives of the people living in the special zone (grain, edible oil, sugar, agricultural and sideline products, charges for the major services, transportation fees, rents and charges for water and electricity) and the industrial products for the local market of the special

zone (including end products of joint ventures and cooperative enterprises and products supplied by the foreign trade departments).

2. The price levels of the products to which the planned floating prices are applied should be lower than those of the products to which the free floating prices are applied. To be exact, the price levels of the agricultural products sold to Hong Kong, Shenzhen, and the nonspecial zone should be in the order high, medium and low. Because our export industrial products are supplied to the special zone at the foreign trade prices, their price levels are in the order low (Shenzhen Market), medium (Hong Kong Market), and high (market of the nonspecial zone). In principle, the price levels of imported industrial products should more or less match or be slightly lower than those of Hong Kong and even lower than those of the nonspecial zone because, in addition to the fact that warehouse charges, labor, and [word indistinct] in Shenzhen are cheaper and lower than those in Hong Kong and, the products are delivered directly to Shenzhen without passing through Hong Kong.

3. The free floating and planned floating prices should be formed on the basis of the law of value which is applied at the international level. The law of value, which means "an average unit of the world's labor (Marx: "Das Kapital," Vol 1, p 614)," can be called the indispensable working time at the international level. The free floating prices are essentially identical with the free prices in the international market. On the above basis, it is especially necessary to take into account the law of supply and demand in the international market. The planned floating prices are applied in the special zone in a way different from the way they are applied in the nonspecial zone in that in the special zone, there are fixed plans which act as guides, our understanding of the law of supply and demand is quite in keeping with the reality of the market, the law is quite thoroughly applied, the planned floating range is wider, and demand is frequently readjusted, while in the nonspecial zone, the plans play a more important part in guiding. At present, both the range of commodities and the planned floating range are quite small. We have a sound grip of the law of supply and demand but we have not put it into effect.

4. The price control organs of the economic zone must be strengthened and not weakened. It is necessary to combine planned guidance closely with the expansion of the enterprises' initiative in fixing prices. Price bureaus should pay close attention to the price situation in the markets at home and abroad. It is necessary to provide guidance in pricing the products for the domestic and foreign markets, to fix and readjust on time the domestic planned markets, to fix and readjust on time the domestic planned floating range, and to compile price indexes for the reference of the labor and wage departments when they make decisions on the establishment of ties between the rise and drop in prices and the rise and drop in wages. It is necessary to publish on time information on prices of commodities in both the domestic and foreign markets for the reference of the enterprises, to let the enterprises in the special zone enjoy a greater decisionmaking power in pricing than that of the enterprises in the nonspecial zone, and to restrict the range of the prices of products for sale in the special zone while the prices of the products for sale to foreign countries freely and flexibly float with the fluctuations in the international market. Price departments of the special zone should deepen their understanding

of the markets and , on the basis of this understanding, make suggestions to departments concerned on the establishment and perfection of the price and price control systems.

The above outline reflects the following characteristics:

First, the socialist special economic zones have been strictly distinguished from the capitalist export commodity processing zones (or free trade zones) with respect to price system. On one hand, the socialist special economic zones share some common characteristics with special economic zones in general --the products are for the international market and prices float freely; on the other hand, they possess characteristics different from those of other special economic zones--in the socialist special economic zones, prices are principally planned floating prices and the socialist special economic zones are characterized by planned guidance.

Second, the difference between the price forms of the special and nonspecial zones has been reflected--the socialist special economic zones do not set too many high prices but revitalize their economies by setting flexible and changeable planned floating prices for a vast multitude of commodities with ranges different from those of the prices which are set by the nonspecial zone for another set of commodities.

Third, the respect, within the limits permitted by state policy, given to the special character of the sale of part of the products produced by enterprises under individual proprietorship to the local market, the price forms not being fixed but allowed the float freely.

Fourth, the price system is in keeping with the mechanism for regulating the economic development of the special zone. The special zone should, under the guidance of state plans, mainly practice market regulation. As the principal price forms, the free and planned floating prices have fully met this requirement as far as prices are concerned. This is manifested in the fact that they have reflected the requirements of the planned guidance by prescribing a floating range which is subject to regular readjustment. The planned and free floating prices enable the enterprises to enjoy a greater decisionmaking power in pricing. In this way, the enterprises can pay more attention to economic results and the marketability of their products and improve management amid competition.

Fifth, by making good use of this price system pattern and by devoting efforts to making the prices of most products produced in the special zone equal to or lower than the prices in the Hong Kong and Macao markets, it can attract overseas compatriots, Hong Kong and Macao compatriots, and foreign friends to buy commodities in the special zone. In this way, the special zone can have a greater competitive power and will become an oriental purchase center in reality as well as in name.

The Principal Basis for the Special Zone's Establishment of the Price System with Stress on Planned and Free Floating Prices

The establishment of the above special zone price system is principally based on:

First, the fact that we have respected the objective requirements of the economic laws. 1) As far as the basic economic laws are concerned, the basic socialist economic laws are aimed at meeting the growing material and cultural needs of the people. In a special zone, such needs are conditioned by the development of production and the demand situation. By setting planned floating prices for the daily necessities which are of vital importance to the lives of the people living in the special zone, that is, by freely fixing prices within the rather flexible planned floating ranges which are subject to regular readjustment, we can ensure that the people's needs are unceasingly met. The basic capitalist economic law, that is, the law of surplus value, is appropriately embodied in the special zone, in particular, in the enterprises established with foreign capital and the enterprises under individual proprietorship. We have to a certain extent complied with the requirements of the law of surplus value by letting the prices float freely. 2) The socialist plans and laws are implemented through the planned guidance of the economy of the special zone. The planned guidance has been embodied by setting wider floating price ranges. To be sure, we must set planned floating prices for some important commodities but let the prices of other commodities float freely and be to a larger extent regulated by the market. 3) The planned floating prices have reflected the conscious application of the law of value whereas the free floating prices have reflected the unguided spontaneity of the law of value. The difference in the price forms of the domestic and foreign markets is precisely the result of the thorough application of the law of value.

Second, the socialist nature of the special zone (not of the special zone economy), which has dictated the need to differentiate the price system of the socialist special zones from those of the capitalist special economic zones (such as the export product processing zones, free trade zones, and so on) all over the world. The free prices are not the leading factor in the price system of the latter. The free price system simply "unifies the world." If we mechanically copy from this pattern, we are bound to confuse (at least in price form) the socialist special zones with the capitalist special economic zones. However, there is still the problem of the common character which the two kinds of special zones share. That means, the purpose of both kinds of special zones is to quicken the pace of economic development by utilizing foreign capital, and they should adopt a more flexible price policy. The prices of the export products of the special zone and the products of the enterprises under individual proprietorship are free floating prices (essentially free prices). All this constitutes their common character. The special character of the price system of the socialist special zones is manifested in the planned floating prices of the products for the local market of the special zone. In this way, in price system at least, the two kinds of special economic zones are clearly distinguished from each other.

Third, the fact that the new price system has fully reflected the objective requirements of the law of value. The industrial products produced by the special zone are mainly for export. Their prices should not be based in the indispensable working time of the special zone but on "an average unit of the world's labor" (Marx: "Das Kapital," Vol 1, p 614) and be fixed by comprehensively applying the law of supply and demand of the international market. That the prices of the export products (including some agricultural and sideline products) should be free floating prices is in keeping with the requirements of the law of value. Because the products are produced by the special zone, the prices of the same products which are for the local market should correspond to the prices of those sold to the international market and for a certain period, it is necessary to reduce, within a rather flexible floating range and under planned guidance, the price levels of the former to below the price levels of the latter and not to raise them to the appropriate levels until we are in full control of the market. The planned floating prices are principally based on the law of value, only they are characterized by a conscious application of the law of value. The fact that the prices of the products of the enterprises under individual proprietorship, whether they are for the local market (when they must be under the strict control of and approved by the departments concerned) or for export, are free prices does not run counter to the requirements of the law of value of the international market.

Basically, the people engaged in the study of price theory hold four different views on the price system of the special zone after its completion: first, the theory of the leading and supplementary roles, or the adherence to the leading role of free prices and the supplementary role of planned prices; second, the theory of partial and full correspondence, or the theory of the partial and full correspondence, or the theory of the partial correspondence between the price system of the special zone and that of the domestic market and the full correspondence between the price system of the special zone and that of the international market; third, the theory of appropriate correspondence, or the theory of the appropriate correspondence between the price system of the special zone and those of the domestic and international markets; fourth, the free price theory, or the theory of the complete consistency, or full correspondence, between the prices of the commodities of the special zone and those of the mainland and foreign countries.

Although the theories of partial and full correspondence and of appropriate correspondence differ in the extent to which ties are established between the market of the special zone and the international and domestic markets, they are too sweeping to be capable of describing the features characteristic of a socialist special zone.

In addition, there are several problems inherent in the theory of the complete consistency, or full correspondence, between the price system of the market of the special zone and those of the international and domestic markets, or the theory of the application of completely free prices in the special zone, which warrant consideration. For example, whether the market of a socialist special zone and the international market of Hong Kong and Macao should be exactly alike or whether it should be a flexible, open market with distinctive socialist features. Should Shenzhen be modeled after Hong Kong or turned into a typical special zone? In my opinion, Shenzhen should be turned into a typical

special zone. If Shenzhen is turned into a typical special zone, it is quite inappropriate to make free prices the sole price system of the special zone.

The Several Problems Which Remain to be Solved in Establishing the System of Planned and Free Floating Prices

At present, the construction of the two lines of barriers is being speeded up and the reform of the price system has been put on the agenda. According to the above tentative plan for establishing a new planned and free floating price system for the Shenzhen special zone, at this stage, efforts should be concentrated on solving the following problems:

First, it is necessary to establish information investigation organs to be responsible for predicting the demand situations of the international and domestic markets and studying economic information such as the prices in the international and domestic markets. These organs can be called special zone centers for the study and prediction of economic information. Through the work of these centers, information on the situation of the international and domestic markets can be passed on to the city economic and planning commissions and other departments concerned. In this way, they can avoid making mistakes in guiding production. The information should also be passed on to production and marketing departments and the enterprises so that they can make flexible responses. The city price bureau should have its own organ for studying and predicting price situations. At present, there is nobody in the special zone who studies the information concerning the changes in the international and domestic markets. Consequently, there is much delay in making responses and decisionmaking is faulty. This lesson should be borne in mind. Of course, at an early stage of the establishment of the special zone, it is inevitable that such a phenomenon exists. However, after the completion of the two lines of barriers, such a phenomenon should not exist any longer.

Second, the special zone should have a standardized currency. At present, in the special zone, the Hong Kong dollar, foreign exchange certificates, and the Renminbi are being circulated and the price of a commodity is set in three different currencies. Consequently, the price of a commodity varies greatly. The problem is related to the simultaneous existence of different currencies. People engaged in theoretical studies have discussed this problem and they hold three different views: First, the view that it is too early to standardize the currency. This view suggests that the original situation of the co-existence of different currencies should continue to exist. Second, the view that the standardization of currency is imperative. This view suggests that the special zone should issue its own currency as soon as possible. Third, the view that foreign exchange certificates should be made the currency of the special zone. I personally favor the second view. It is necessary to issue, on the basis of a thorough study and prediction of the problems which would emerge in financial circles and the formulation of feasible measures for providing guarantees, a special zone currency, to make the Renminbi, the Hong Kong dollar, and foreign exchange certificates withdraw from circulation, and to allow none except the special zone currency to be circulated throughout the special zone. In this way, we can avoid the phenomenon of differences in price caused by the differences in currency, put an end to the malpractice of buying and selling foreign currencies as speculation, and give impetus to the economic development of the special zone and only in this way can we smoothly implement the system of planned and free floating prices.

Third, the need to stabilize prices. In the special zone, price stability can be expressed as the link between the price index and wages. In this way, the [word indistinct] stability [word indistinct] the special zone has, while the people's living standard remains unaffected, a nature different from that of prices in the nonspecial zone. To stabilize prices in the special zone does not mean to freeze prices. This is not realistic. Because the products of the special zone are for the international market and the foreign enterprises in the special zone have a national capitalist nature in varying degrees and because of the effect of the Hong Kong and Macao workers on the wages of the workers of the special zone, the wages of the special zone workers are usually 100 to 200 percent higher than those of the workers of the nonspecial zone. Wage forms can vary, but "basic salary plus floating wages" (applicable to the enterprises) and "basic salary plus job subsidy" (applicable to the workers of the state-run enterprises) should be the dominant forms. In principle, it is necessary to adopt some reform measures in order that the wages of the workers of the state-run enterprises will not be too much lower than those of the workers of the foreign enterprises. By establishing links between prices and the reformed wage system, we can avoid the situation of great disparity in the living standards of the people living in the special zone and bring about an all-round upsurge in the economy of the special zone.

Fourth, the price organs should not weaken but strengthen. What is meant here is that the price departments should not expand the range of commodities sold at unified fixed prices but should strengthen their guidance over the industrial and commercial enterprises in their setting of free prices or setting of prices independently within the planned floating range. In addition to passing out the information concerning the international and domestic markets to departments concerned at all levels, another important task is to estimate and fix the ranges of the prices of the commodities for sale in the special zone. These ranges should generally be wider than those of the nonspecial zone. The ranges should be wider and adjustment should be timely. Thus, the workload should be correspondingly greater. People think that it would be better not to fix the ranges but to let things drift and to make all prices free prices. This is a passive method. The above sentence still holds good: If we want to make the market of the special zone one with distinctive socialist features, we have no other choice than to exert planned influence on prices because it is an important indicator which helps us distinguish the socialist special zones from the capitalist special economic zones. Thus, we must make an effort. The price departments can also strengthen their planned guidance over the enterprises in their setting of prices by guiding the enterprises and educating them in economic policies and economic knowledge including the law of value, the law of supply and demand the policies of various countries, the policy of small profits but quick turnover, and the policy of dominating the market. In this way, the enterprises' system of planned and free floating prices will become scientific and feasible.

Fifth, concerning the problem of strengthening education and training of the workers of the price organs. In order to make a success of planned guidance over prices in the special zone, the workers of the price organs should have a thorough understanding of the principles of economics and some basic knowledge of accounting, management, price[word indistinct], marketing theory and business management. In addition, they should have a certain proficiency in foreign languages.

The question of what kind of price system should be established is an important theoretical and practical problem. Because the socialist special zones provide little experience we can make use of, we must probe into the question ourselves. The above are merely some superficial ideas. I hope, by offering a few commonplace remarks by way of introduction, others may come up with valuable opinions and make a success of the discussion on this problem.

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ECONOMIC MANAGEMENT

FACTORY INVOLVED IN MILITARY-CIVILIAN INTEGRATION

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[Article by Chen Jiagui [7115 0163 6311] and Wang Lingling [3769 3781 3781]: "Exploit the Advantages of Military Industrial Enterprises To Serve Technical Transformations in Civilian Industry--An Investigation Into the Wangjiang Machine Factory's Moves Towards 'Military-Civilian Integration'"]

[Text] The Chongqing Wangjing machine factory is an old military factory with a history of over 40 years, equipped with fairly advanced and modern equipment, is technologically strong, and has a large production scale. The factory has made very definite contributions to the development of China's military weapons industry. In 1979, during readjustments to the national economy, the factory actively introduced the principle of integrating military and civilian industries, constantly exploiting the enterprise's potential and its technological advantages in order to serve the light and textile industries and various other sectors, and as a result has achieved very good economic results. During the 29 years between 1950 and 1978, after the profits and losses of the factory had been balanced, the factory was still incurring losses of 6.92 million yuan. Since 1979 the enterprise has managed to turn around this deficit and in 1979 it managed to achieve profits totalling 1.36 million yuan, while in 1982 its actual profits stood at 41.428 million yuan. During the last 4 years [words indistinct] state a total profit of 40.98 million yuan.

1. [Words indistinct] Towards Military and Civilian Integration

Since 1979 the Wangjiang Machine factory has made use of its surplus production capacity to provide the light and textile industries and other sectors with machinery and equipment of a fairly developed and advanced technological standard. This has been extremely helpful in technical transformations within the light and textile industries and has promoted increases in economic results, while at the same time has helped in the development of the enterprise itself. The main features of this development are listed below:

1. It has promoted the development of production in the light and textile industries. In the last few years, in addition to providing the coal industry with sets of liquid pressure tressles, this factory has changed a large proportion of its production to the provision of machinery and equipment to the

light and textile industries. In all, the factory has manufactured over 80 different kinds of machinery for the production of leather, cigarettes, rubber, textiles, paper, tea, and so on, and this has totalled over 600 pieces of machinery and 1,184 transport vehicles.

The Wangjiang machine factory's effective support for the technical transformations in the light and weaving industries have meant some big changes for some enterprises which are running up losses. In addition, the quality of light industrial and textile products has constantly improved. For example, in the past the Chongqing dye and printing factory used to use a normal stoving machine in the treatment of medium- and long-fiber cloth. The semi-completed product which emerged after processing was very hard, very narrow, and lacking in similarity to wool, and had several other related problems. After the factory introduced the three-stage, short-link stoving machine provided by the Wangjiang machine factory, production quality greatly improved, not only in looks but also in the soft woollen-like texture of the material. The product reached the technological standards of product quality. In recent years the equipment and machinery that the Wangjiang factory has provided for the light and textile industries and other sectors have become popular throughout the country, in some 20 provinces and cities. According to statistics from the relevant departments in Chongqing, the amount of equipment that the factory provided for other factories and industries during 1981 in the Chongqing area alone could earn over 50 million yuan for the country.

While serving the technical transformations in the light and textile industries, the Wangjiang machine factory is not simply repeating or copying existing technological equipment. It was making every effort to exploit the latest scientific and technological research results in its production and in doing so it promotes the technological standards of the factories it is serving. For example, the Yuanhong outside line technology was new technology from the 1970's and was frequently used by the Red Army. In order to cut down on energy usage the factory began to promote this technology in a big way, by implementing its usage during the technical transformations of cigarette and tea processing industries. In the past the Chongqing tea factory used to use coal or diesel oil to heat the tea leaf stoker, which not only affected the quality of the tea leaves, but also polluted the atmosphere. After the installation of the Yuanhong external line tea leaf stoving machine, not only did the color of the tea leaves improve as well as the scent and taste, thus increasing exports, but in addition the equipment automatically maintained heat, looked attractive, was solidly built, easy to control, safe, and reliable, thus greatly improving production efficiency and speed.

The active service provided by the Wangjiang machine factory for the technical transformations of the light and textile industries has helped the light industrial and textile products break onto international markets. For example, the No 1 steel file factory did not used to have a file blade testing machine and as a result was unable to accurately determine the capabilities of its own products. At the same time it had no idea of the capabilities of similar products from China or abroad. Thus once a year special trips had to be made to somewhere like Beijing, Shanghai, or Dongbei for assistance in testing its products. In 1980 the Wangjiang machine factory test manufactured two file

blade testing machines for the factory and then the factory carried out comparative tests between its own products and file blades of famous brands manufactured both in China and abroad. From these tests it gained a great number of statistics and information, and on the basis of this information carried out constant improvements on the factory's production technology, raw materials, and file teeth, thus gradually improving the quality and stability of their products. During the 1981 national file blade quality appraisals, organized by the commercial department and in which nearly 100 file blade producing factories participated, the factory's flat files won third place while its round files won second place. Of the nearly 800,000 file blades manufactured that same year, half were exported to the United States, Spain, and other countries. Last year, of the 750,000 file blades produced at the factory, around 400,000 were exported, thus bringing in more than \$300,000.

2. Technical transformations have been speeded up in the enterprise itself. The Wangjiang machine factory is developing its civilian production and supporting the light and textile industries and, at the same time, is also strengthening itself. In the last few years, technical transformation work in the factory has been focused on the weak links in the production of civilian product production. Bearing in mind the characteristics of military and civilian integration, the factory has drawn up plans for technical transformations in the production of both military and civilian products. The factory has been working hard to ensure that its new technology and new production and processing methods remain applicable to the direction of development of both civilian and military product manufacture. Between 1979 and 1981, the factory undertook a total of 6,876 technological renovation projects, of which 691 were of a large scale. At the same time the factory also made great efforts to introduce energy-saving machinery and technology, and now the 107 low-heat boilers in the factory are all using Yuanhong external technology. In one year the factory is able to save 1.06 million KWH of electricity. Of the 89 medium- and high-heat boilers in the factory, 58 have now been re-fitted with ceramic fiber materials and as a result they annually [word indistinct] of 790,000 KWH of electricity. Since 1979 electricity consumption per 10,000 yuan of production value has dropped annually from 9,300 KWH in 1978 to 3,900 KWH in 1982.

3. Improvements in workers' technological standards and enterprise management standards have taken place. The manufacturing technology in military industrial enterprises is fairly stable and the internal division of work is extremely detailed. After the development of civilian products there were some quite large changes and in many workshops there was alternate production of civilian and military products, thus increasing the work procedures and demanding that the workers develop towards grasping several different kinds of work skills. During the production in this factory over the last few years of civilian product manufacturing, the vast majority of the workers have all learned several different work skills.

The production of civilian products by military industrial enterprises has also brought about big changes in enterprise management. For example, in production management not only has the amount of preparation work for production technology increased, the same production line is being used for several different

small batches of production which has made production management rather complex. As far as planning management is concerned, clients and customers have to be sought independently on the basis of the market situation. As for financial management, in the past the state organized monopoly purchasing and sales of military products, but since the development of civilian production, the marketability of each product has to be considered, and production costs have to be kept down before the enterprise can actually make any profits. In the last few years there have been vast improvements in the standards of management at the Wangjiang machine factory and the factory now has fairly comprehensive spare parts and component prices for its major civilian and military products as well as labor quotas, raw material consumption quotas, energy consumption quotas, and good methods for estimates and assessments. In addition the factory has implemented a two-tier production cost accounting system comprising the factory and the workshops. Economic responsibility systems have been implemented in both the production workshops and the functional and administrative offices, while the factory now has a comprehensive method of assessing economic results. All of these things have meant that production quality and economic results have increased constantly. In 1981 the factory's profit rate of 100 yuan funds was 18.53 percent; in 1982 this had climbed to 43.42 percent. In 1980 labor productivity throughout the factory stood at 5,268 yuan per worker, while in 1982 this had increased to 8,458 yuan per worker.

The worker's lives have improved and the problem relating to the employment of sons and daughters has been partially solved. Since the implementation of the principle of integrating civilian and military industries, the enterprise's gains have steadily increased, as have profits for retention. In 1980 the latter stood at 2.06 million yuan while in 1982 it climbed to 9.969 million yuan. The proportion of these profits used for collective welfare undertakings and worker bonus funds has also increased annually. In 1980 the figure was 1.03 million yuan and in 1982 it was 2.427 million yuan. During those 3 years nearly 60,000 square meters of accommodations for workers were built, thus solving the housing problems for nearly 1,000 worker families. The employment problem for 1,823 sons and daughters of workers has also been solved. This includes some 68 disabled children who have basic working capabilities.

2. The Concrete Steps Involved in Moving Towards Military and Civilian Integration

1. Improve ideological understanding and constantly improve awareness about the movement toward military and civilian integration.

Since the readjustments to the national economy in 1979 there has been a large decrease in orders for military goods, leaving the Wangjiang machine factory with insufficient work. As a result, the factory was forced to accept production undertakings for the production of national minority products. However, some comrades only considered this a measure of expediency and actually harbored doubts and were not being very positive in their actions either. In 1980 demands for military products continued to fall, forcing the factory to actually sit down and repeatedly study some of the central authorities' outlines concerning military and civilian integration. After study and

discussion they increased their understanding of the principle of military and civilian integration in four main areas: First, the implementation of the principle of military and civilian integration is determined by the nature and character of military industrial production. Because military industrial production is greatly influenced and affected by both domestic and international political trends, production tasks are by necessity very unstable. If production is not integrated with civilian products, the production capacity of military industrial enterprises cannot achieve full expression. Second, the implementation of the principle of military and civilian integration is also decided by the state of the military industrial enterprises. Over the last 30 years the state has invested an enormous amount of effort into developing the military industry. Military industrial enterprises are far superior in terms of technological equipment or technological capabilities, but for a long time problems in the management and administration system have meant that the enterprises could manufacture only military products and were unable to use their superiority and advantages to serve the entire national economy. During times of insufficient production orders especially, some enterprises suffered enormous losses and had to depend on the state for aid. Only through military and civilian integration can this problem be thoroughly shaken off. Third, judging by the present state of China's civilian industries, they badly need the support of military industrial enterprises. The technology in China's civilian industries is still very backward and are supported by the military industrial enterprises. Furthermore, China has shortages of common industrial products and as a result there is a need for the military industrial enterprises to produce some civilian products to replenish the market and satisfy the people's daily needs. Fourth, only through military and civilian integration can the overall developmental level of China's industries improve. There is a relationship of mutual support and mutual promotion between the military industry and civilian industry. Military and civilian integration is the only option if the military industrial enterprises want to develop: this is a long-term strategic principle. After understanding increased, the move towards military and civilian integration changed in the factory from being a forced and necessary action to a conscious action. It took not only the difficult times in 1980, when there were insufficient production orders and the factory was "searching for rice to fill its bowl" but also the very serious state of the military industry in 1981 and 1982 as far as orders were concerned, to finally make the factory decide to firmly implement the principle of military and civilian integration and steadfastly work towards "the four constants," namely constant upholding of the guiding ideology of serving the technological transformations of the light and textiles industries and other sectors; constant work towards developing basic technology teams for the organization and development of civilian products; constant maintenance of relations with civilian enterprises; and constant determination to speed up the batch processing and production of civilian products.

2. Exploit the factory's advantages, select good civilian product types and gradually develop major products.

A crucial problem is successfully achieving military and civilian integration lies in being able to correctly choose the production direction for civilian

products. When selecting products the Wangjiang machine factory used its strategic vision in not choosing popular everyday consumer items, but rather, on the basis of a great deal of research and investigation, they opted for products which would serve the national economic technical transformations and especially technical transformations in light industry. On this major premise they drew up four fundamental principles for selecting concrete products: The product must have a consumer. Not only should they develop products which have many consumers at that particular time, they should concentrate on developing some products with very few consumers but which could attract large numbers of consumers after the successful completion of test production. For example, at that time special filter fitting machines were only being ordered by one consumer, the Chongqing cigarette factory. The structure of this product is very complex, it is almost entirely automatic, and its manufacture is very difficult, and orders are very few. However, they believed that this product had potential, so they decided to manufacture it while at the same time accepting production orders from cigarette factories for cigarette rolling machines, single packaging machines, carton packaging machines, and other pieces of machinery and equipment, thus providing the cigarette factories with even more products. Today this equipment has become the factory's major civilian products and it has now been listed as one of the partial production factories for light industry. The second principle is that the enterprise must be able to achieve certain economic results. The provision of technological equipment and machinery by the military industrial enterprises to light and textile industries and other sectors, and the carrying out of technical transformations will without doubt improve economic results for the whole society, but the enterprise itself must also carry out its economic accounting and make some profits. For this reason, when products are being selected, value analyses should be carried out, and rational prices should be set so that the consumer will want to buy the products. The third principle is to uphold the similarity or proximity of technology, so that the factory may exploit its own advantages. On the basis of its long history, the large numbers of elderly workers and technological personnel, its technological strength, good technological equipment, and general comprehensiveness, the Wangjiang machine factory was careful when selecting product types to choose machinery and equipment with complex structures and a high degree of automation, and which demanded a high degree of precision processing. Fourth, to ensure as much as is possible that the factory is not competing with local factories but rather is working actively towards improving the technological standards and product quality of local enterprises and open up new markets. On the bases of these principles, the factory, after 3 years of consideration and selection, decided on the production of 12 horsepower three-wheeled cars, composite coal-cutting machines, and cigarette machines as their major civilian products. Today, small-scale production of these products has begun. The factory selected vulcanization prediction machinery, wide plastic film composite machinery, and so on, as their technological reserve products. They also selected minicars as their product for near-future development. All of these choices were designed to improve the enterprise's suitability to market changes.

3. Firmly ensure the implementation of concrete measures. When the Wangjiang machine factory implemented the principle of military and civilian integration it worked towards the following "three implementations" in terms of concrete measures:

First, organizational implementation. With the establishment of a system of command for the development and production of civilian products, the factory foreman and chief engineer are entirely responsible for both military and civilian products. The leaders of the divided management production are jointly responsible for the command of technological preparations and production organization of both military and civilian products. At the same time every technological office sets up a suitable group or assigns specialized personnel to manage all work connected with civilian products. In order to ensure that management and the development of civilian products are both carried out well the factory has also specially set up a commercial sector, responsible for the marketing of products, market adjustments, and technological services. Every link in the production of military and civilian products is managed by someone. This avoids confusion in production technology command.

Second, planning implementation. Plans for both military and civilian products are both drawn up in a large general plan by the planning section and the production department then works out work assignments on the basis of this general plan, ensuring that they are implemented, level by level, to the workshops, groups, actual machines, and individuals, ensuring that there are reliable guarantees for the completion of all production plans.

Third, working towards production site implementation. In order to ensure normal production of both military and civilian products the factory did not destroy its previous production lines for military products when it began to develop civilian products. As far as the organization of the production of civilian products was concerned, three different solutions were used according to the nature of the products. 1) Single unit equipment--these were generally arranged to be produced in production workshops without standards suitable for that particular product; 2) Multipiece production machinery--in general the products were produced in separate parts with the various parts and components being produced in coordination with relevant workshops, on the principle of technological proximity. 3) Small batch products--an example would be the three-wheeled cars, which, by relying on the military product production lines, were produced in such a way as to fill in the various gaps in the line so that its production formed a kind of very loose production line.

As a result of steadfast implementation of the "three implementations" the factory has been able to come fully to grips with civilian products and at the same time avoid destroying the military product production lines by filling in the various parts of military product production lines and ensuring that technological teams involved in military production remain, thus integrating very well military and civilian production.

4. Establishing the idea that the consumer comes first and coming to grips with product quality and technological services.

In order to ensure that consumers receive reliable and quality products the factory has adopted five measures: First, to improve quality checking standards of the crucial positioning of equipment during the planning stage. For example, in cigarette machinery and equipment, improvements of between 1 to 2 degrees of accuracy of some of the parts during checks have meant that the quality comes up to or exceeds quality standards for similar kinds of equipment elsewhere in the country. Second, the drawing up of a strict inspection system with inspection improved and checks made at all levels and stages of production. Third, tackling key problems related to important and crucial components in the products. For example, the tackling of the engine power of the three-wheeled cars. The positive results of these moves have meant that the factory has been awarded first prize by the military weapons industrial department and the factory's team handling the tackling of such problems has been named the advanced quality management team. Fourth, the invitation of people into the factory and positive selling in the market and the seeking of consumers' opinions concerning product quality, followed by concerted efforts to make improvements. Fifth, strict assessments as well as an integration of assessments with bonuses. Because these measures were properly implemented the factory's products have achieved a reliable quality and have won consumer praise. The factory also pays a great deal of attention to work on technological services and by organizing service teams they train equipment operators for consumers and help the customers to understand the assembly of machinery and so on, as well as solving various other problems for customers. In order to take full responsibility to the utmost, the factory provides five guarantees for its products, namely guaranteed design, guaranteed production, guaranteed assembly, guaranteed compensation, and guaranteed training of personnel.

3. Some Problems Which Must Be Solved as Military Industrial Enterprises Move Towards Military and Civilian Integration

In the last 4 years the Wangjiang machine factory has done a great deal of work in implementing the principle of military and civilian integration and its successes have been obvious. However, judging by the state of the factory, there are still some problems which require attention if military industrial enterprises want to move stably towards military and civilian integration.

1. As far as developing civilian products is concerned, the state should provide active encouragement and support in the form of economic policies. The military industrial enterprises have only just begun to produce civilian products. They need to organize product development and fill in equipment gaps and need investments of funds. Some products will temporarily create losses and for these products there could be a reduction or eradication of industrial commercial tax. As far as the profits from civilian products manufactured in military industrial enterprises are concerned, the enterprises' proportion of profits for retention could be suitable enlarged to ensure that the enterprises have a certain amount of economic strength to carry out product development and technical transformations. This would also act as a kind of encouragement for the enterprises.

2. The development of civilian products by military industrial enterprises must enter the state plan. The products being manufactured at present by the Wangjiang machine factory are based on market investigations and were chosen through selection and elimination. However, strictly speaking, the developmental direction of the products is still not stable. Some products such as cigarette machines see their marketability affected due to changes in the market situation. Other military industrial enterprises are also experiencing similar problems in their selection of civilian products. As a result we believe that the developmental direction of civilian products manufactured by military industrial enterprises should be entered into state planning through all possible channels, with regional products serving small enterprises being entered into regional plans, while larger scale products, which have a greater influence on the national economy and the people's livelihood, or products manufactured in large quantities, should be entered into national plans. In this way we can avoid similar products being manufactured in the same area, mutual vying for products, and wasted manpower, finances, and materials. The goods and materials needed by the military industrial enterprises to produce civilian products should also be organized through the usual channels.

3. Military industrial enterprises should also strengthen their own technical transformations. It is absolutely correct that military industrial enterprises moving towards civilian and military integration should focus on serving the technical transformations of civilian industry, but there is also a problem connected with technical transformations for the military industrial enterprises themselves. This is especially true of older factories and enterprises such as the Wangjiang machine factory. This problem is very clearly also extremely important. Such problems as irrational work procedures and technological processes, the fact that a great deal of factory space is run-down and useless, and that overcrowding and lack of space means that some jobs simply have to be done on the street or elsewhere in the open air all present huge difficulties for developing production. The relevant departments should make great efforts to provide support for the implementation of technical transformations, should step up their guidance and assist the enterprises in implementing improvement measures.

4. An internal enterprise management system suitable to military and civilian integration should be set up. As military industrial enterprises move towards military and civilian integration, reforms and improvements have to be carried out in management thinking, management structure, and production organization, and while the Wangjiang machine factory has taken some steps in this direction, the problem has still not been accurately solved today. Thus new changes and improvements must be sought to meet the requirements of the new trends.

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ECONOMIC MANAGEMENT

MILITARY-CIVILIAN INDUSTRIAL INTEGRATION

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[Article by Zhang Rumou [1728 3067 6180]: "On Military Industrial Enterprises Following the Road of Military-Civilian Integration"]

[Text] The national defense industry is an important constituent part of the national [word indistinct] since the founding of the PRC, for the sake of safeguarding the motherland and socialist construction, the state has invested a large amount of manpower, financial power and material resources in the national defense industry and its relevant scientific and technological work. This has brought into being a large national defense industry which serves as a center for scientific research, has a full complement of departments, is equipped with advanced technology, powerful force, possesses high-grade equipment, and has been able to make valuable contributions to the building of our country's national defense. Unfortunately, for a prolonged time, due to the adoption of a management system calling for the unitary production of articles only for military use, the military industrial enterprises have not been able to fully display the superiority of their technology and equipment, and there has appeared an extremely serious phenomenon of equipment lying idle and technology sadly neglected. This has profoundly affected the development of the national economy. Hence, in order to bring the productive forces of the military industrial enterprises into full play and to facilitate construction of the four modernizations, it is necessary, under the logical premise of first definitely ensuring completion of the state's assigned tasks on scientific research and production of armaments and under the guidance of the state plan, to swiftly readjust the structure of the products, following the principle of each displaying its technical special features and of playing up the good points but forsaking the weak ones, and to implement the guideline of military-civilian integration, making the utmost efforts to perform a good job in the scientific study and production of articles for civilian use.

In the past few years, carrying out the party Central Committee's guideline of "readjusting, restructuring, consolidating, and improving," and that of "military-civilian integration, peace-and-war integration, top priority to armaments, and civilians supporting the army," and following the directions of leading comrades of the party Central Committee, the relevant departments have firmly grasped the trial points of reforming the economic structures of the former 4th Ministry of Machine Building (Ministry of Electronics Industry)

and the 6th Ministry of Machine Building (China Ship-Building General Corporation). As a result, over the past 2 years, both the electronics and ship-building industrial departments have performed well the assigned tasks of the state on military industrial scientific research and production, and have greatly developed production of articles for civilian use. This represents a big step forward on the road of military-civilian integration. In 1982, even under conditions of a sharp reduction in orders for military goods and a substantial restriction placed on the production of radio sets, the Ministry of Electronics Industry still managed to complete the year's plan by 103.2 percent, an increase of .4 percent over 1981, of which the value of output of goods for civilian use was 88.7 percent. Similarly, in 1982, the China Ship-Building General Corporation overfulfilled the year's plan by 10 percent, an increase of 28.1 percent over 1981, of which the output value of civilian goods made up 71.4 percent. Seen from the electronics and ship-building industries, the structure of products has suffered a fundamental change and the experimental work on restructuring both the former 4th Ministry of Machine Building and the 6th Ministry of Machine Building has achieved definite results, the principal manifestations being: a rise in production, widening of service areas, enlivening of enterprises, and a notable improvement in the quality of the products.

At the same time, the four industrial departments subordinate to the National Defense Science and Technology Commission (nuclear, air navigation, armament, and space flights industrial departments) have also achieved great progress in implementing the principle of military-civilian integration. In 1982, the output value of their products for civilian use amounted to 210 percent of the 1979 figure, making up 19.8 percent of the gross output value of industry as a whole. Of this, the output value of the Ministry of Space Flights Industry made up 47.7 percent of the whole, while profits from sales of products for civilian use accounted for 54.8 percent of the gross profits from marketing. Over the past few years, these 4 industrial departments have set up over 300 production assembly lines of articles for civilian use. To enliven the market for light industrial products, they supplied a stated quantity of electric machine products such as 1.2 million bicycles, 1.10 million sewing machines and 570,000 sets of washing or laundry machines. Concurrently, they have provided such civil departments as light industry textiles, crude oil, chemicals, pharmaceuticals and public health, agriculture, and forestry with the transplant and promotion of over 220 items of new military-industrial technology, new techniques, and results of scientific research. Good economic results were initially achieved.

In the past few years, in order to meet the development needs of the national economy and based on the requirements of the light and textile industries and of the durable consumer goods industry and the demands for opening up energy resources, Zhongqing city has organized several national defense-industrial plants such as the Jialing machinery plant and the Wang Jiang machinery plant under the Ministry of Armament Industry. These plants have formed combinations and cooperated with plants producing civilian articles for the municipality. Simultaneously with ensuring and constantly improving production of military articles, they have vigorously developed the production of articles for civilian use. In so doing, they not only have changed the situation of not

having enough orders on the part of the military industrial enterprises and have increased their profits, but also have promoted the technical transformation of enterprises in the localities as well as development of the national economy. It also has enabled many small enterprises in the localities to solve problems of cooperation and providing other plants with parts or accessories. The experiences of these two plants in Zhongqing are well worth propagating and promoting.

However, in the course of the military industrial enterprises engaging in military-civilian integration and changing the structure of their products, a number of urgent problems are awaiting solution. The principal ones are: unbalanced development—a rather large number of military-industrial enterprises, particularly certain large backbone enterprises, are still unable to locate the kinds of articles for civilian use the production of which can fit in with the special features of their technical equipment, and hence have been unable to display their potentialities. At the same time, in the current production of articles for civilian use, military industrial enterprises, or a large portion of them, must find their own connections and attend to their own production and marketing. In recent years, activities of this kind have played a definite part in supplementing insufficiencies in the state plan and enlivening the market, but they have been unable to ensure the stable production of articles for civilian use or the rational organizational and full display of the production capacity of military-industrial enterprises. Therefore, it is necessary to strengthen their planning work and to include them in the unified plan of the national economy. In addition, under the present condition of the entire machine-building industry not having enough orders, the military industrial establishments may meet with certain new contradictions if they develop production of articles for civilian use. This will certainly require the various economic departments and policies to take suitable measures to actively support the efforts of the military industrial enterprises to implement the principle of military-civilian integration.

In order to further promote military industrial enterprises to take the road of military-civilian integration and improve the results of the national economy, it is necessary to perform well the following jobs:

1. We must take a step forward and further propagate and carry out the guidelines of the party Central Committee calling for "military-civilian integration, peace-and-war integration, and give top priority to military articles and civilians supporting the military." We must make the relevant departments and enterprises clearly understand that this guideline points to the only road for development of the military industrial enterprises, that it is a long-term strategic policy, that it is not a measure of expediency, and that it must be earnestly and penetratingly put into operation. Military industrial production is subjected to influences from the political situation both internally and externally. Its production tasks are by no means stable and only in widely opening its doors and promoting the production of articles for civilian use can there be a full display of the potentials of the military industrial enterprises. Hence, relevant departments taking charge of science and technology in national defense and the national defense industry should, aside from fulfilling the tasks assigned by the State Council and the Central

Military Commission concerning science and technology and related to production of arms and equipment, devote all their efforts to production of articles needed by the national economy and thus render aid to construction of the national economy. At the same time, based on the spirit of undertaking and guiding reforms firmly, orderly, and systematically, we must gradually transform the management system of military industrial enterprises of attending solely to the production of military articles. The various relevant departments and industrial departments of the localities should initiatively effect liaison with each other, support each other, share intelligence reports with each other, consult each other, and make joint efforts to perform a good job of military-civilian integration.

2. Based on their own special features, military industrial enterprises should produce those kinds of civilian articles which agree with their special features and are urgently needed by the state. Structure of the articles and their production technique should be well within their production capacity and be able to fully display the superiority of the productive force of the enterprises without necessarily involving extra capital construction.

At present, of the civilian articles produced by the military industrial enterprises, the proportion occupied by means of consumption is relatively great. From now on we should gradually pay attention to the production of those kinds of means of production which are urgently needed by the state but the production of which is technically rather difficult. This will help to display the special capacity of the military industrial enterprises. First, we should turn our attention to those civilian articles more or less related to the field of military industry such as civilian aircraft, medium-sized and small combustion gas turbines, civilian shipping, demolition tools for civilian use, use of nuclear technology, and appliances for communication and broadcasting, television, and weather satellites. Moreover, the strong points of military industrial technology should be well utilized to open up new production fields, perform well the job of transplanting military industrial technology to civilian departments, serve the technical transformation of the various departments of the national economy and serve the energy, communications and transportation departments. In reality, the results of the transplanting of military-industrial technology to civilian technological departments will in the end revert to promoting the further development of military industrial technology.

3. Regulations and planned guidance over the production of civilian articles by military industrial enterprises should be strengthened. Concerning pivotal products handled in relatively large volumes, formulating of the regulations should be made only after having performed well the job of market forecasting and acquiring a thorough understanding of the background theories. They should then be submitted to the State Planning Commission and the relevant departments for scrutiny and approval following the principle of comprehensive planning and selecting the best. It is necessary to include the users' demands in the plan and production should be organized according to the usual procedure of placing and accepting orders and signing contracts for them. Specialization and co-operation in the techniques of the production of civilian articles by military

industrial enterprises should be centered in cities and towns and should be subjected to the same regulations and balancing as for ordinary civilian articles.

In undertaking new projects for civilian articles, we must pay due regard to both the military and the people. Concerning projects which can be readily taken up by military industrial departments which have the requisite capacity or which need only a slight adjustment of their equipment and work procedure, priority should be given to utilization of the potentials of the military-industrial enterprises. In the purchase of spare parts from abroad, we should follow the principle that if the military industrial enterprises in the country are fully capable of making or imitating them, they should be entrusted with the jobs of making or imitating them so that the superior talents of these departments may be displayed. Concerning the making of certain products still under study or planning, if the conditions permit, their trial manufacture should be undertaken by military industrial scientific research departments or enterprises. Simultaneously with strengthening regulation and planned guidance, the military industrial departments must also display their enthusiasm and initiative find their own contacts by taking advantage of their own special features. They should strive hard to expand the production area of articles for civilian use in order to supplement insufficiencies in the planned arrangements. The military-industrial departments may also establish technical service corporations, offering compensatory services to civilian industries, and undertake such jobs as scientific research, planning, and the supply of equipment.

4. We must handle well the relations between the military-industrial departments and enterprises and the relevant departments handling civilian articles, industrial departments of the localities, and enterprises producing civilian articles. The relevant departments handling civilian articles and industrial departments of the localities should, as a start, take to heart the interests of the state, perform well the job in making comprehensive arrangements for making use of the production capacity of the military industrial departments, prevent duplicate construction and blind development, and avoid "fighting for food with the common people." They must render aid and support to the production of civilian articles in such spheres as management, technology, market forecasting, and exchange of experience. In the production of civilian articles, military industrial departments should give heed to guidance from relevant departments handling civilian articles and industrial departments of the localities. In the event of contradictions, they should take up discussions for their solution on their own initiative.

5. In order to perform well the job of military-civilian integration, military-industrial departments and military-industrial enterprises must internally adopt the following four measures.

1. Maintaining and protecting the superior tradition of the production of articles for military use and insisting on "quality first." In order to maintain the good name and competitive quality of military-industrial departments in the production of civilian articles, the policy of "quality first" must be insisted upon. Just like the trial manufacture and regular production of

armaments, the studying and preparation work for the manufacture of important articles for civilian use must be preceded by the setting up of a corps of design personnel and a system of all-round quality control and must strictly follow the procedure of making a careful study before taking up trial production work, and finally follow up with actual production. Through comparisons with products of the same class, certificates attesting to the good quality of the products should be issued to the deserving so as to promote enhancement of the quality of the products and the continuous turning out of new products which are good in quality and cheap in price.

2. Strengthening leadership, learning management methods, and actively promoting advanced experiences. Persons in charge must be stationed in various departments and enterprises to handle the test manufacture of articles for civilian use. Based on the actual condition of the unit concerned, a definite management system should be set up, and steadily improved, covering various phases of production of civilian articles such as planning, production, technology, finance, material resources, statistics, quality specifications, standardization, marketing, market forecasting, and technology development. An adequate staff must be provided and there must be responsible personnel taking charge of each operation. Taking due note of the special features of civilian articles and the weak links in military-industrial enterprises, we should step up the work on market research, production arrangement, assessment of technology, business accounting, marketing of products, and so on. In this way, we can work out a correct orientation for the products, continuously lower the cost of products, and open up new marketing venues.

3. Tightly grasping the "pivotal" products and stepping up test manufacture of new products and also stepping up technical transformation. At present, modern technology can easily become antiquated. In order to maintain a stable rate of development, we must savagely grasp the trial manufacture and production of pivotal products. Moreover, based on the theme of division of work within the department and enterprise and making a rational distribution of tasks, we should, following investigation and research work, readjust a small number of enterprises and a portion of the workshops, carrying out their technical transformation in a planned and systematic manner, and speed up the readjustment and construction of production and assembly lines for pivotal products.

4. Establishing a sinking fund for development of civilian articles. In order to step up development of the production of civilian articles, aside from taking full advantage of currently available conditions, we should render aid and support to products earmarked for priority development, ensuring that definite funds are available for their development. Under the present system, in principle scientific research funds are still borne by the military industrial departments, or are shared internally among the military industrial enterprises. As for the small number of important civilian articles related to the national economy and the people's livelihood, relevant government departments should provide the requisite funds. It is recommended that the military-industrial departments retain a portion of the profits remitted from the handling of civilian articles and earmark them as sinking funds for development of civilian articles. The departments in charge should have unified

control of these funds, using them to supplement the shortage of funds for development of civilian articles on the part of a small number of enterprises. Utilization of the funds may take the form of non-interest-bearing, or low-interest, loans, to be duly repaid on fixed expiry dates.

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ECONOMIC MANAGEMENT

IMPROVED REFORM, MANAGEMENT KEY TO ECONOMIC DEVELOPMENT

Shanghai SHANGHAI KUALJI [SHANGHAI ACCOUNTING] in Chinese No 5, 25 May '83
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[Public Lecture by Gu Shuzhen (7357-2885-2832): "On Reform and Management"]

[Text] (The following is based on a recording and has not yet been checked and approved by the author.)

Today is the Accounting Institute's first public lecture of the 1983 fiscal year. I would like to offer a few commonplace and introductory remarks in discussing the issues in "On Reform and Management."

I. The Situation

Since the 3d Plenary Session of the 11th Party Central Committee, China's political and economic situation has improved each year. Last year both the 12th CPC Congress and the Fifth Session of the Fifth National People's Congress convened. These two meetings were extremely successful; they formulated the best party constitution and charter since the founding of the party. Due to united efforts throughout the nation, the entire economic and political situation this past year was even better than was anticipated. This year's New Year's Day editorial in RENMIN RIBAO [THE PEOPLE'S DAILY] asked that on every front, in every area, in all units, all the sons and daughters of China enhance the new splendor of our great undertaking. Thus it asks that "we resolutely reform and pay close attention to the economy."

First of all, economic readjustment has two meanings. In past discussions of readjustment, I pointed out that it was important to reduce capital construction, to readjust the proportion of agriculture, light industry and heavy industry and to readjust the ratio between accumulation and consumption. In this sense, after many years of effort, readjustment has already been essentially completed. The economic structure has developed in a rational direction; the proportion of the gross output value of the country's light and heavy industries steadily rose from 47.7 percent in 1978 to 51.4 percent in 1981. The proportion of nonproductive investments rose from 17.4 percent in 1978 to 41.1 percent in 1981. This apparently imbalanced ratio has already changed for the better. This is a gratifying result brought about by readjustment.

Now my discussion will center on the readjustment of economic results, and I will principally discuss, so as to make rational, the readjustment of the structure of business organizations, products and technology. This readjustment must proceed from a comprehensive perspective and be organized in accordance with industries and key cities. Some enterprises must close, suspend, merge or retool, and some overlapping organizations must be dissolved. Coordination among specialized departments must be further developed. In macroeconomic readjustment, the readjustment that specifically penetrates deep within industries and enterprises, the composition of the readjustment should be even more specific than in earlier stages, and the degree of difficulty should be even greater. Reforming the economic system completely improves economic results and guarantees socialist modernization and construction. As a consequence, the progress of readjustment must accelerate appropriately. At the end of 1982, the industrial enterprises of the entire city [Shanghai] had already retained profits in all industries. Over the past 3 years local state-run industries have accumulated 2.1 billion yuan in retained profits. Of these profits, approximately 46 percent went to the development of production, 29 percent went to collective welfare and 25 percent went to bonuses for the workers. But China's enterprises are still not on the same level with independent producers of commodities. They have not yet established a strict system of responsibility that integrates power, responsibility and benefits. There has not yet been a fundamental solution to the "iron rice bowl" and "everyone eating from a common pot." Therefore, the reorganization of enterprises should be launched fully this year so as to further enhance ideological and political work, integrate and carry out a system of responsibility for profits and losses, and earnestly achieve power on the outside and pressure on the inside. Thus reorganization will fully arouse the subjective activity of the people and stimulate the healthy development of economic construction.

Actually, the emergence of a "buyer's market" has brought new problems to Shanghai's economy. The rate of commodity production in the countryside has risen dramatically and there has been an increase in production of cash crops. Agriculture, forestry, animal husbandry, sideline production and fisheries all developed comprehensively.

At present there is a period of great economic development in the city and country. Last year was the best year for grain production since 1949, exceeding the 1978 level. The development of agricultural and industrial production has been relatively fast in some provinces and cities. From January to October of last year the total output value for industry and agriculture increased 8.9 percent in Jiangsu Province, 7.9 percent in Zhejiang Province, 13.3 percent in Anhui Province, 6.8 percent in Tianjin, and rose 5.6 percent in Shanghai. Of these, the gross industrial and agricultural output value of Jiangsu Province exceeded that of Shanghai, and ranked first in the nation.

Under the circumstances of such a tremendous development in commodity production there now exists a relation between the supply and demand of many consumer goods and a portion of capital goods, there has been a change of direction from a "sellers' market" to a "buyers' market," and Shanghai's industrial products are facing a serious challenge. In the past it was "the emperor's daughter is not concerned with marriage." This town does not want what other parts of the country want; the city does not want what the country wants; other countries do

not desire what is needed at home. But now the emperor's daughter is stuck in the palace, and she cannot get out to marry. This reflects the gradual loss of the superiority of Shanghai's technology. In 1982, Liaoning Province surpassed Shanghai in the quality of its products: Shanghai won a total of 44 gold and silver medals while Liaoning Province won 48. There is a close relationship between the decline in Shanghai's competitive ability and its unreasonably setting random regulations on its pricing policy. Many of its products cannot break into the market. Since 1978, Shanghai's savings have progressively increased 470 million yuan each year; this bears out that purchasing power does exist. But there has been an emergence of a "buyers' market" for products, and this is a phenomenon seldom seen in a socialist nation.

There has also been a large upturn in the national financial situation, but in the next few years there must be both a balancing of finances and a great expenditure of effort. After 1979, in order to solve the problem of a serious decrease in the scale of the national economy caused by 10 years of upheaval, the party and the state took the initiative in striving for a policy of distributing the readjustment. Up to 1981, China used 140 billion yuan to heighten and improve the people's livelihood. Of these funds more than 44 billion yuan was used to enhance the purchasing price of farm produce and sideline products; 7.8 billion yuan was used to reduce the tax revenues borne by farmers; expenditures for increasing labor wages, arranging employment and carrying out a system of bonuses reached more than 40 billion yuan. The cost of import subsidies for grain, cotton, oil, chemicals and other products exceeded 30 billion yuan; increased construction of residences, etc., used more than 10 billion yuan; and more than 20 billion yuan was used to bring into play the enthusiasm of industries, to increase the initiative of industry, to retain profits, to be responsible for the distribution of profits and losses, etc. These few measures which are gradually solving those problems of production and livelihood that have been left over from many years, will cause China's economy to develop steadily, with obvious effects. But China has already paid a great price for this: the deficit totaled 17 billion yuan in 1979; 12.1 billion yuan in 1980; and in 1981, after a comprehensive effort throughout the country, the deficit was reduced to just more than 2 billion yuan, thus basically achieving a balance. This year the estimated state revenues should increase over last year's level; this is a new turning point. We should strive to achieve the great goal of quadrupling industrial and agricultural gross national output by the end of this century. However, inadequate funds for construction still remain a great contradiction. What should be done? We must depend on developing the economy and improving results. This urgently demands resolute reform and increased management. This is the topic that I wish to discuss today.

II. Reform

Reform is currently the theme of China's political and economic life. We must reform completely and systematically, firmly and vigorously. There are tasks for reform on every front, in every area, in every department and every unit. We must eradicate those old restrictions, conventions and habits that hinder our progress. Moreover we must extensively study new situations and problems, summarize new experiences and create new methods. In short, reform has already become a trend of the times for China. More and more people with lofty ideals

have come to recognize that if we do not speed up reform we cannot talk about comprehensively initiating a new phase of socialist modernization and construction.

At present reform is especially manifest in the following four points:

1. Break through such egalitarian fetters as "everyone eating from a common pot" and "the iron rice bowl." Truly carry out the policy of more pay for more work, less pay for less work and no pay for no work. Thus fully bring into play the people's enthusiasm for work and increase the economic results of socialist construction.
2. Surmount the state sector of the economy's taking care of all irrational situations, and develop an economy of many different shapes under the premise of upholding the leading role of the state sector.
3. Surmount the past malady of overmanaging and systematizing to exhaustion, and change the method of relying simply on administrative procedures to run the economy. Combine economic and administrative methods, and carefully utilize economic levers and regulations to manage the economy. Surmount the unreasonable appearance of creating barriers between the city and the countryside, and creating vertical and horizontal barriers. Develop the impact that large and medium cities have on the economy.

My most important points regarding reform as it affects financial management are as follows:

1. Gradually adopt a system substituting tax payments for profit turnover. Premier Zhao Ziyang in his report on the Sixth 5-Year Plan pointed out that we must quicken our pace in using taxes to replace profits. He divided his plan for large and medium enterprises into two steps. The first step is to allow "taxes and profits to exist side by side." For profits, local taxes and income taxes should first be levied according to a predetermined scale. For the profit remaining after taxes, we must adopt many different ways of carrying out a reasonable distribution between the state and enterprises. The second step is to carry out a progressive collection of income tax based on a fundamentally rational price system. Within the next 3 years we must collectively and individually contract and rent, and achieve "the government levies taxes, with these funds pay the bills, and each side assumes sole responsibility for profits and losses." Based on the needs of economic development we must appropriately readjust industrial and commercial tax rates, tap new tax resources, further bring into play the raising of funds for tax revenues, and readjust production and circulation. We can believe that in bringing about the reform of the aforementioned system of taxes and profits, the administration and management of enterprises will experience a profound change.

How should one, under so many different circumstances, distribute an enterprise's profits between the state and enterprises? This truly is a problem that must be explored today. In principle, we must both guarantee the state's revenue and protect the deserved profits of enterprises, profits which have been previously specified. This task should be simple and easy to do.

Premier Zhao Ziyang said: "The government levies taxes, with these funds pays the bills, and each side assumes sole responsibility for profits and losses." Since enterprises must assume sole responsibility for their profits and losses, then certainly enterprises must be urged to assume the responsibility to meet emergencies, and at the very least we must create a few conditions under which enterprises are required to develop in the direction of possessing the ability to assume sole responsibility for their profits and losses.

Regarding the problem of adjustment taxes, there are problems in both theory and practice. Actually, income tax in itself is an adjustment tax. It can be used to adjust the inequalities between bitterness and happiness, and can be used as a method for progressively taxing excess [income] in order to regulate the undue disparity between incomes. The first step in substituting taxes for profit delivery, we must first levy an income tax according to a fixed ratio, and afterward levy an adjustment tax according to the circumstances. Thus, the adjustment tax is actually a second income tax. But it is very difficult to determine the link and the tax rate of the adjustment tax to be paid. If there is one rate for every business then should there be hundreds and thousands of different rates? How should the rates be determined? There are difficulties in carrying out this adjustment in both theory and in practice.

On the problem of fund utilization fees. The purpose of collecting utilization fees is to compel enterprises to economize and to improve the effective results of funds. Other taxes are not able to replace the usefulness of capital expenditures. As for determining the rate of cost, the lowest compensation should go to enterprises with state investments, and this can be determined according to the average profit margin. In that case, can the rate of costs for each area be somewhat irregular? For 100 yuan of sales revenue in Shanghai, the actual cost averages more than 66 yuan. The average cost for the entire country is more than 73 yuan. Comparatively, the costs for Shanghai are 7 yuan lower, and the level of expenses is 9.6 percent less.

The gross income from 100 yuan of funds in Shanghai is more than 61 yuan, a 2.2-fold increase over the national average of 28 yuan. This explains why Shanghai should be more economical than other parts of the country in the employment of its national funds. Of course, this is mostly due to different objective conditions; it is analogous to paying different land rents for fertile and barren land. We can see that in theory the rate of capital expenditures can be somewhat irregular. Concerning the repayment of loans, should it occur before or after the collection of income taxes? They should be repaid before income taxes. When repayment takes place before tax collection then both the state and enterprises share the economic burden of contributing funds, but if repayment occurs after tax collection then responsibility falls entirely on the enterprises. This would be unfavorable to an enterprise's ability to meet emergencies in its assuming responsibility for profits and losses.

In short, it is imperative that we implement a system of using taxes to represent profits. The realistic problems relevant to using taxes to represent profits must be solved as quickly as possible.

2. Change the method of collecting depreciation funds.

Premier Zhao Ziyang in his report on the Sixth 5-Year Plan pointed out: "Based on the ability of our national financial resources, in the future we must adopt a positive attitude and gradually improve the depreciation rate." Comrade Chen Yun [7115-0016] when receiving the Shanghai representative to the Fifth National People's Congress said: "Improve depreciation funds and hasten the replacement of equipment; import advanced technology and carry out the restructuring of technology. Shanghai has many old businesses and should focus attention on this problem in particular." Speaking from practical experience, having lived in Shanghai for a few years, the continued utilization of new technology to remold old equipment is definitely the essential key to Shanghai's industrial development.

A. The situation: the average rate of depreciation for the entire city is 4.5 percent; that is, the replacement period is every 23 years. Currently 33 percent of all equipment is more than 15 years old and has already entered the replacement stage. Since 1949, the replacement rate has been low in order to reduce costs. Although methods for handling depreciation changed in the 1960s, the depreciation rate itself remained unchanged. A comprehensive depreciation rate is merely calculated in a simplified procedure. This is a shortcoming in that there are no practical circumstances under which financial assets are considered.

B. We must implement a system of classified depreciation rates. We must calculate the equipment's natural, mechanical wear and tear, and appropriately calculate the element of invisible amortization.

C. Scope. In the production process, all fixed assets must be included. We should not include what we do not use or do not need. We should not include obsolete figures.

D. We should not adopt an accelerated depreciation.

E. When considering the discrepancies between the book value of fixed assets and their actual value, do not plan on carrying out a property appraisal. Concerning the problem of the original value being too low, in the future we must gradually seek a solution.

3. The essence of capital expenditures is to compel enterprises to be economical with funds, to improve the practical results of the enterprises' funds and to overcome the philosophy of "everyone eating out of a common pot." Under the circumstances of capital expenditures accounting, we must guarantee that state funds are rationally employed and achieve the goal of accelerating the turnover of funds. If the flow of the turnover of funds in Shanghai is speeded up by 1 day, it can save more than 100 million yuan. At present the financial and banking sectors are not attaching enough importance to the flow of funds. The financial sector is responsible for supplying the flow of funds within a certain quota, and the bank, using loans, is responsible for exceeding that quota. This way, funds are contributed by two different channels, thus causing a disadvantageous increase in management. The management should be united by the bank.

III. Management

Management is an objective requirement of the combined labor of the people. Following the continual development of productive forces, the standards of management must also continually develop. At present we must consider the improvement of economic results and the smashing of "everyone eating from a common pot" and the "iron rice bowl" as our central concerns. All economic activity should emphasize the acquisition of economic results and also provide beneficial contributions to society. This way, social reproduction can continually expand, and the continually growing needs of the people and society can be satisfied. Economic results are a comprehensive reflection of the standard of management, and the relative superiority or inferiority of the standard of management ultimately must reveal the size of the economic results.

A discussion of five issues follows.

1. Strengthen the basic work of financial management.

A. Perfect original targets. In the statistics of 1982 for the entire city, 43 percent of the original targets had been more or less accomplished, more than 60 percent of the quota for raw and processed materials was on target and 52 percent of the quota for man-hours and related items was right on target. This bears out the fact that China has both great potential and a great disparity. In the future, we definitely must strengthen the basic work in original targets, and for economic accounting we must lay a foundation for improving the standard of management and administration.

B. Strengthen the management of quotas. Formulate a quota that is average, advanced and reasonable. By advanced, I mean the set amount of the quota, so that the amount of man-hours expended will be lower than the amount of labor that society needs. By reasonable, I mean the stipulated quality of the quota so that under certain conditions of the production of technology and production of organizations, we rationalize the organization of labor, the operation of construction and method of operation. By average, I mean setting reasonable limits based on advanced premises so as to guard against the inequality of "whipping the fast ox."

C. Establish a necessary and strict system for handling goods and materials. We must achieve the "four heaves and the three agrees." The four heaves are: to have a plan for purchasing, to have checks for the delivery of incoming material, to have procedures for receiving and returning items and to have a quota on consumption. The three agrees are: all bookkeeping entries should agree, bookkeeping entries and vouchers should agree, all entries should agree with actual receipts and expenditure.

2. We must strengthen economic accounting and compel the enterprises' management to possess the ability to carry out the computing, decisionmaking and forecasting of economic results. We must thoroughly alter the situation of balancing the books after the fact, we must take the initiative rather than playing a passive role in analyzing economic results. We must continually comprehend the weak links in management and administration, explore possible paths and methods for economizing, and use profits to quickly improve the level of management.

3. We must make great efforts to economize on consumption and to reduce costs. If the total costs for Shanghai's industries were 1 percent lower, several hundred million yuan could then be saved. Raw and processed materials, fuel and energy assume more than 80 percent of the costs for enterprises. In comprehending these links we can then lower costs by a large degree. Lowering costs is not only the responsibility of financial personnel, it is even more the responsibility of scientific research personnel. Technology and science should definitely be combined, and even more scientific research personnel should be concerned with problems of production and cost.

4. We must promote a system of responsibility within enterprises. The establishment of a stringent system of responsibility is an objective requirement of economic management. If there is no stringent system of responsibility, it cannot be designated management. A system of responsibility means adopting a strict set of rules and regulations, clearly defining the limits of one's functions and power, and defining the criterion for work and economic responsibilities. A system of responsibility means achieving a situation whereby the personnel of the relevant work units and work stations assume responsibilities, it means enjoying privileges, having rewards and punishments, and giving rewards and punishments impartially. The most important facet of a system of responsibility is the enterprises' assuming a system of responsibility for the profits and losses of the state.

At present, Shanghai has adopted a practicable way to assume a system of responsibility. They take the targets for costs and funds and successively break them down to the responsible departments, such as the workshops, teams and groups (in factories, etc.). All warehouses and shops within a plant similarly coordinate and implement independent accounting for enhancing economic results. For example, there are the so-called five determines: people determine the work posts, the work posts determine the responsibilities, the responsibilities determine the accounting, the accounting determines the distribution, and the distribution determines the share; this is a practicable means of assuming a system of responsibility. The logistics department and management, based on their respective characteristics, can also put forward assessment targets, and later pool their efforts and implement the policy of the three integrations, namely: responsibility, power and profits.

We must extend the enterprises' experience in competently executing a system of responsibility. At present, we can sum up our requirements and methods for managing a system of responsibility: consider the contract to be the core, combine national, cooperative and individual interests, and connect the achievements of labor with work benefits. We must firmly handle the reform and management of large enterprises; there are 140 large enterprises which [annually?] each contribute more than 20 million yuan in tax and profit revenues to the state, which comprises 55 percent of the city's tax revenues. It is obviously very important to handle well the reform and management of these few factories.

5. We must strive to increase the production of marketable products. At present, a fatal weakness of enterprise management is the untimely and misinformed news concerning foreign and domestic enterprises. At the moment, a "buyers' market" has appeared in the domestic market. This urgently requires

production units to raise the incidence of the bartering of products, to improve the quality of the products, to increase the variety of colors and designs, and to strive to increase the production of new marketable products. For this reason it is essential that enterprise management personnel and engineers and technicians penetrate the market and understand the purchasing power of the consumers and users. Thus these personnel will essentially have a grip on first-hand data in order to plan a design in which relatively more products conform to the demands of the market. Two years ago pressurized thermoses were unable to enter the market. After 2 years of hard effort, four modifications and an increase in the variety of colors and designs from 7 to 8 to 37 types, the product satisfied the needs of the market and the market then opened up. In 1979, 20,000 products were produced on a trial basis; in 1980, 200,000 were produced, a 10-fold increase; in 1981, 260,000 were produced; in 1982, 550,000 were produced; and the plan for 1983 is to step up the expansion to 1 million trial products: this already represents a 50-fold increase over the original base number. These products are now being marketed in 40 European and Southeast Asian countries. It is clear that suiting the needs of the commodity market is a matter of life and death to the development of enterprises.

The Tianyuan Chemical Plant, keeping management and administration in mind, arranged a chart of product life (durability) for their own products.

The first type of products are those required by the market and have a high degree of durability. The second type are products in excessive supply, of backward technology, high costs, excessive fund utilization and short life span. The third type are products temporarily in excessive supply because the quality and variety of these products do not suit the needs of the market, and these products only need to be altered a little to bring about a change. The fourth type are products in short supply: the supply does not meet the demands of the market. The fifth type are products that we badly need domestically but cannot supply ourselves, and we must depend on imports. Thus there is a prospect for great development. We can feel assured that we can execute different policies toward products in different classifications, moreover we can adopt the appropriate measures with purpose and direction.

On the problem of the trial manufacturing of products, some enterprises are not willing to produce new products. Objectively speaking, the process of producing old products is familiar, the profits are high, and there are no risks. But in the production of a small batch of new products the costs are high and there are risks. In the future, we must pass legislation to persuade enterprises to put new products into production. As for the temporary decline in profits, we can reduce taxes and achieve the same level of profits as enterprises which produce old products. Furthermore, in the trial manufacturing of new products, the labor bonuses and welfare systems of the enterprises will not be effected. At the same time, tax revenues will accumulate for enterprises that for 10 or 20 years consistently control the production of products. Thus, we must bring into play the lever effect of tax revenues and develop the production of new products.

Since the 3d Plenary Session of the 11th Party Central Committee, China's economic work has already taken a healthy path toward steady development. However, our socialist economy still lacks the proper vitality. The main reason for this lies in the backward ways of management and administration. We only have to achieve reform in order to be able to know down the situation of "everyone eating from a common pot," to fully arouse the socialist enthusiasm of the people, to liberate productive forces, to cause enterprise management to quickly rise to a new level, to produce even more socialist riches, to develop national interests and to bring a prosperous happiness to the people.

At present the general policy of reform is: "Proceed from actual conditions, reform completely but systematically, and reform resolutely but in an orderly manner." Reform has already become a tendency of the day for China. It has given us financial management and posed new questions. I hope that all comrades and financial personnel engaged in economic work will hurl themselves into reform work, create a system and method that is suited to the management and administration of China's national conditions, and add a new lustre to our great undertaking!

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ECONOMIC MANAGEMENT

JINGJI GUANLI DISCUSSES ENTERPRISE CONSOLIDATION

HK261216 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 83 pp 19-20

[Article by Zhu Yinggeng [2612 4134 5087] of the Zhejiang Provincial Construction Materials Department: "How To Speed Up the Steps Towards Enterprise Consolidation"]

[Text] Enterprise consolidation, "quadrupling," and the plans of the central authorities are all extremely accurate. However, when one compared the last year or so with the predicted requirements, one can see that progress has been slow. How can we quicken the pace on the basis of improving quality? Having spent a year working on investigations at the grassroots level, I would like to discuss a few things I have learned about this:

1. In terms of work deployment, enterprise consolidation should be tackled by making it a focal point of work in economic construction during this year and the next few years. The reasons for this are, first, agricultural economic trends are basically stable and from now on the major problem will be one of consolidation and improvement and the continuation of focal work should and can be directed towards industry. As far as how industry should be organized, obviously the first thing to do is to organize consolidation among existing enterprises, striving for improvements in economic results. Second, consolidation work is very far-reaching and now involves a lot of new things, all of which require the strictest attention of the upper administrative levels and all relevant departments. At present the leading comrades in many departments are not too clear about the actual content of enterprise consolidation work, believing that it is merely the affair of the industrial departments. This situation must be rectified as quickly as possible.
2. Strengthening of the leadership bodies involved in enterprise consolidation. In some areas, present enterprise consolidation work is still basically organized by the economic committees, while in those areas which have created leadership groups for enterprise consolidation, such groups are in many cases only nominal. Judging from the situation in certain provinces, factors connected with the jurisdiction of enterprises and so on have meant that the leadership groups for enterprise consolidation in those provinces have basically not resolved problems which have been passed up from the lower levels, including problems which directly concern the province itself, and in many cases the groups have not taken firm stands on certain problems. Hence many problems which could originally have been solved very quickly have been left pending.

Comrades in enterprises refer to this as "hard consolidation by the soft economic committee leaders." Thus I suggest that the main responsible comrades in each province and city should not only personally come to grips with enterprise consolidation work, the upper-level leadership groups for enterprise consolidation should also be given certain decisionmaking powers to reduce delays and impasses and thus improve work efficiency.

3. The five items of work involved in enterprise consolidation should undergo overall planning and be implemented in a strict and orderly way. As far as the sequence of these five items of work is concerned, the first step should be the consolidation of the leadership groups, for without successful consolidation of the leadership groups there can be no development for overall consolidation work. The second step is to tackle the consolidation of labor organizations and resolve questions relating to organizations, systems, the drawing up of plans, quotas, and staff numbers, for these are all deciding factors in the implementation and success of the economic responsibility system within an enterprise. The third step is the implementation of the system of economic responsibility. These three steps are the most important part of enterprise consolidation. The consolidation of labor discipline and the consolidation of financial discipline as well as other groundwork can be carried out throughout the implementation of the above-mentioned three steps.

During consolidation every enterprise can freely select its own "breach point." Because of confusion in the sequence of work in many enterprises, stoppages often occur, work is held up, and time is lost, and thus only half the results are achieved with twice the effort. For example, in one factory in a certain province the "breach point" for the factory was the completion and perfection of the economic responsibility system in terms of internal job positions, but because quotas and staff numbers had not been properly organized, the whole project was delayed for a year, even today the economic responsibility system has still not been correctly implemented. Thus some comrades feel that it is not suitable for the enterprises to select their own "breach point" for the five items of work and instead these items of work should be carried out consecutively according to intensional relations within the enterprise. In this way a great deal of time lost because of "stopping work because of a lack of materials" and "repeated work due to poor quality" can be saved.

4. It appears that some modifications are needed in the overall arrangement and planning of consolidation work. The original plans from the central authorities specified integration of the specific with the general, with consolidation being carried out in stages and in groups, with each group taking around six months so that consolidation would be complete by 1985. Today the biggest problems is the time involved in consolidation, and consolidation work is now taking far longer than was at first envisaged. In general, the enterprises say that the completion of the five items of work requires at least 1 and 1/2 to 2 years or even 3 years for high quality. When we analyze this estimate in terms of the demands of overall consolidation and comprehensive reordering as well as the present quality and actual stage of development of consolidation, we can see that it is not conservative. The first batch of enterprises to undergo consolidation throughout the country represent only 2.5 percent of all enterprises. If consolidation is carried in stages and groups

who knows when enterprise consolidation will actually be finished! Thus I suggest that when the consolidation of the first batch of enterprises is complete could we not consider terminating the stage and group procedure and instead alter things so that consolidation is carried out according to the order of the five work items and the seriousness and urgency of the undertaking, with all enterprises throughout the country being tackled together in a comprehensive manner but in different stages so that everything could be basically finished in 3 years. As far as the content and time allotted to each stage of consolidation, some more research and thinking is still needed, but at the very least unified deployment in separate stages has the following advantages:

1. Work content is fairly concentrated and any problems which emerge are also fairly concentrated and centralized. This will help the upper-level leaders examine and solve these problems quickly and thus provide guidance. In this way we can avoid the present chaos in consolidation in which problems are very diversified and numerous, leaving the upper-level leaders at a complete loss.
2. The distance between certain items of work can be increased and there can be ample time for preparatory work. Such phenomena as "work stoppages due to lack of materials" which arise out of rushing can be avoided. This will help raise work efficiency.
3. It avoids present problems of being pressed for time which results in shoddy work. This will help improve the quality of consolidation work.
4. It helps the mutual integration and implementation with reform and prevents consolidation and reform from becoming divorced from one another.

On the basis of some analytical calculations made by myself and the comrades of some enterprises, changes in the organization of consolidation, as long as plans are accurate and the leaders of all levels really come to grips with consolidation work, will mean that we will be able to realize the original targets and demands of the central authorities, and basically complete consolidation work by 1985. If consolidation work is continued in batches and stages, the chance of completing it on time is very slim.

5. Integrate enterprise consolidation and reform. At present there is a view which is referred to as "carry out consolidation with the spirit of reform." This implies that it is no longer sufficient to merely carry out consolidation alone. Facts prove that so-called constructive consolidation is in actual fact reform. Not one of the five items of work does not touch on or require reform. The key to the quality of enterprise consolidation lies in how reform is carried out. One of the reasons why the previous stage of enterprise consolidation work was not carried out fast enough is that no breakthroughs were made or were dared to be made in some problems relating to reform. Hence, if we want to speed up steps towards consolidation we must also speed up steps towards reform. Today reform has just got underway and work in every area must keep up. Those areas in which there are some very pressing problems should try to get ahead. For example, the question of internal power restrictions in enterprises is at present still at a stalemate and many items of work which the enterprises are capable of doing entirely alone and problems

which they can solve by themselves have all been put off and delayed because of all these "old women" who cannot nod their heads in agreement fast enough. Hence I suggest that on the basis of investigative research, the relevant departments of the central authorities draw up some clear guidelines concerning the internal power restrictions in enterprises, thus unbinding the enterprises' hands and feet and also giving the enterprises a little of the independent powers of reform and allowing enterprises to decide their own destinies.

6. The work style of upper-level organizations should correspond to the needs of enterprise consolidation. Today, many organizations, bodies and departments are not serving the grassroots but are instead demanding that the grassroots serve them. Work is delayed and put off and work efficiency is very low, seriously influencing the development of consolidation work. For example, during the previous stage of consolidation work, after some enterprises passed on to the upper administrative levels certain problems which they could not tackle themselves, it was like casting a grain of sand into the ocean and in some cases there were no decisions forthcoming over long periods of time, while in other cases problems are simply solved as they stood. After some enterprise leaders reported their preparation plans to the upper administrative levels they still had not received ratification after 6 months. Some enterprises had to wait until the end of the year before the relevant departments gave them their bonus quotas and piecework wage outliens for that same year.

7. We should make great efforts to train backbone workers in enterprise consolidation. At present, the vast majority of comrades from the upper administrative levels right down to the grassroots enterprises all lack perceptual knowledge about enterprise consolidation and reform. What they lack even more is rational knowledge and understanding, and at the moment is is actually only a very small number of people who are tackling consolidation, while the vast majority are simply watching. Since the previous stage of consolidation, we have gained considerable experience and lessons about the work involved in enterprise consolidation, we have begun to come up with some certain things which show regularity we now have certain necessary conditions for training key workers in consolidation work. Some study classes as well as discussion meetings and meetings should be organized for exchanging views and experiences while, in addition, relevant material should be printed and distributed with the aim of publicizing basic knowledge about enterprise consolidation and reform, such as the concrete content of the five items of work (especially the constructive content) and their intentional relations, and how to draw up consolidation plans as well as concrete steps involved in each item of work.

8. Improve investigative research into and concrete guidance for enterprise consolidation work. During the previous stage of consolidation work all levels of administration came to grips with enterprise consolidation work by sending investigative cadre groups to remain at the grassroots level for some time, and in general the results of this method of work proved good. However, there are still some unsatisfactory things. One is that there is insufficient investigative research into policy-related problems connected with consolidation work. Second, there is insufficient investigative research into the regularity

of enterprise consolidation. These two problems are the key factors affecting enterprise consolidation. As a result, the next stage of consolidation work should step up investigation into these two areas. There would also be no harm in changing the present style of sending cadre groups to the grassroots level for investigation. First, investigative research instead of concrete help should be made the most important thing. Second, the groups going to the grassroots level should stay for shorter periods of time while the extent of their investigative research should be increased. Third, the groups involved in investigative research should be made up of cadres from the leadership, policy research departments, and specialized departments (organization, personnel, labor, finances, goods, and materials), as well as personnel from the administrative departments of the enterprises. During their investigative research they should not only unearth problems, more importantly, they should come up with ways of solving problems, including the drawing up of relevant policies, stipulations, and regulations. Fourth, investigative research should accurately anticipate real work.

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ECONOMIC MANAGEMENT

ENTERPRISES MUST TURN DEFICITS INTO SURPLUSES

Chengdu SICHUAN RIBAO in Chinese 10 May 83 p 1

[Editorial]

[Text] At present our provincial economy is advancing steadily and developing in a healthy way. In the first quarter of this year the gross value of industrial output for the entire province increased 9.8 percent compared with the same period last year, the quality of most products steadily improved, the growth of the sales revenue of enterprises was comparatively greater, and general circumstances were good. A glaring problem existing in industrial and transportation enterprises was that the number of state-run enterprises reporting deficits was comparatively greater and the amounts of the deficits were large, moreover, it appears this trend will continue to grow. At the end of 1982, deficits for industrial enterprises reached 26.8 percent of the entire provincial budget, losses were 15.7 percent of realized profits, an amount proportionately greater than national average levels. In the first quarter of this year, deficits of local industrial enterprises reached 31.7 percent and losses were 21.5 percent of realized profits. These figures are, respectively, 2.5 percent and 20.7 percent increases over the same period last year. The increase in the extent of losses of industrial enterprises seriously influences the improvement of economic results. The tax revenues provided by every 1 million yuan of industrial output of the local enterprises of our province were lower in 1982 than in 1981 and were 16.3 percent below national average levels. If these conditions are not speedily changed they are bound to influence the basic improvement of national financial and economic conditions, influence major national construction efforts, and the healthy development of the national economy. Every area and every department must give their highest attention to this.

Socialist industries bear the important responsibility of accumulating development capital for the nation. Enterprises with deficits not only cannot increase this accumulation, on the contrary, they must rely on the earnings provided by profitable industries for subsidies. This obviously is not in accord with the demands of speeding up priority national construction efforts and improving the lives of the people. To do this industries with deficits must be turned to profitability with the utmost speed.

So, how can this change from deficit to surplus be made with utmost speed?

First, remedies which suit the case are needed to formulate policy. Deficits occur in industries for many different reasons. From the perspective of conditions in the entire province, with the exception of deficits permitted by national policy, the great mass of deficits belong to losses due to management, and such losses are also of many varieties and kinds. This demands that in considering deficit industries we must first arrange them by categories and then analyze each individually to find out the crucial reason of the deficit, then afterward distinguish between different circumstances and adopt appropriate measures. For example: 1. Toward those types with deficits due to laxity in the leadership group of the industry or to disorganize management and administration, they must be consolidated and integrated with overall enterprise, paying close attention to rectifying leadership groups, and letting sensible people who understand technology and know management run affairs and control finances. 2. Toward those with losses due to existing problems in basic construction, they must be adjusted and integrated with the economy and handled better according to the demands of the national plan. We must decisively adjust all new industries just put into operation which are suffering losses in which energy resources and transportation are not coordinated, or which lack raw materials and resources. Stopping those which should halt production and shutting down those which should be closed. For all those deficit enterprises which are required by the nation in the long term, but which are at present temporarily unable to meet their production mission, we must, on the one hand, use limited resources well and strive to increase production while conserving raw materials, while, on the other hand, making full use of equipment capacity and improving overall utilization of resources. 3. Toward those with deficits due to backward production technology, poor equipment and craftsmanship, or uncompetitive products, they must be integrated with equipment renovation and technological reform to promote technological progress and improve technological standards, to produce high quality, low cost, marketable goods. 4. Toward those which have long-term deficits due to unchecked production, producing a supply of goods which exceeds demand with inferior product quality and high usage of fuel and materials, we must resolve to halt production and make changes.

Second, we must talk in terms of policy, rewarding industriousness and punishing laziness. As a matter of practical proof the development of agriculture depended on policy and turning around deficit enterprises must also rely on policy. When we speak in terms of policy it is to encourage and support progress, to discourage and limit backwardness. This is one of the important policy decisions for the regulation of industry and it is applicable in the same way to the work of turning deficit enterprises around. In relation to deficit enterprises, it will give them impetus and pressure and, with the combination of the two, enterprises can tap the latent energy needed to turn deficits around.

Otherwise it will be difficult to turn around the state of affairs of deficit enterprises. The provincial government has recently set policies for turning around deficit enterprises within a specified time period. One is to implement a contractual responsibility system for management which fixes mutual duties, rights and benefits. Concerning those enterprises with losses due to management, they must turn around the losses within a year. Those enterprises that turn around deficits within this fixed period can retain their profits for a year starting from the month they turned profitable. Those enterprises with deficits due to policy must take on responsibility for their deficit subsidies, deficit reductions can be retained or apportioned, and all possibilities must be exhausted to keep losses down to the absolute minimum. Toward those enterprises that use policy deficits as an excuse to conceal management losses, we must strictly distinguish their character; management losses must be decisively eliminated and backwardness must absolutely not be protected. All funds that enterprises can retain because they have turned profitable or cut deficits should principally be used for technological reform or improving economic results. The second policy is that deficit enterprises which go past the turnaround deadline or which exceed their deficit responsibility targets will in no cases have their losses made good from national finances and will not receive any more bank loans. The third is that all bonuses will be stopped for enterprises with losses due to management. In those that have not turned around their losses by the deadline, the monthly wages of factory heads and secretaries will be docked 10 percent. With respect to those cadres who have made contributions to turning deficits around, some of them can be raised in rank and some promoted. All these are active and effective principal policies that should be decisively and thoroughly implemented by every area, department, and enterprise. Socialist state-run enterprises must decisively change those unwritten laws of management, those conditions in which rewards and punishments are not impartial and everyone "eats from one big pot." We must fulfill the glorious duty to accumulate construction capital for the nation.

Third, practicality must be stressed from start to finish. All economic work must strive for practicality, only then can it be effective. To have policies but not to stress practicality is the same as empty talk. Our emphasis stressing practicality covers all levels from high to low. Every level must stress the work of turning deficits around. From responsible bureau heads and company managers to the factory heads of enterprises, all must implement leadership responsibility systems, connecting layer to layer, linking circle to circle to bring the deficit turnaround policy to practical application and guarantee its realization. The masses must be completely mobilized exposing contradictions, seeking causes, setting policies, closing loopholes to take the requirements and measures for turning deficits around and put them into practice item by item in every office, workshop and group, and in every individual. Moreover, periodic inspections must be made from bottom to top and top to bottom of organizational implementation and timely turnaround of deficits.

Leaders at every level must personally pay special attention to a group of key enterprises incurring losses, penetratingly analyze and research them, and help solve problems. The provincial party committee and provincial government have already charged the provincial planning and economics commissions, the finance and other departments to focus attention on 28 enterprises with deficits over 1 million yuan. And every area, municipality, prefecture and county (township) must all pay special attention, based on actual local conditions, to the work of turning around a group of key enterprises with deficits.

It must also be emphasized that turning deficit enterprises into profitable ones must be done by careful calculation and strict budgeting, increasing production and conserving effort at both upper and lower levels. We must strictly forbid fraud, deceptive practices and the transfer of deficits. Financial and economic discipline must be strict and overstepping the bounds of regulations and authority cannot be permitted, nor can people take it on themselves to mitigate national tax obligations or raise product prices, and the false reporting of cost or profit and loss figures cannot be permitted. We must not allow the confused dispersion or concentration of costs and expenses, not permit the diversion of profits, bank loans or circulating capital to make good enterprise deficits. The moment such violations occur they must immediately be investigated and rectified.

Turning around enterprises with deficits at the utmost speed is the most urgent mission at present. If we just truly recognize the importance and necessity of the work of turning deficits around from an ideological standpoint, if we analyze the causes of deficits by seeking truth from facts, adopting effective measures and also putting them into practice, then we can certainly quickly achieve a breakthrough in the work of turning deficits around.

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ECONOMIC MANAGEMENT

ROLE OF ADMINISTRATIVE INTERFERENCE IN PLANNED MANAGEMENT

Yunnan JINGJI WENTI TANSUA /INQUIRY INTO ECONOMIC PROBLEMS/ in Chinese No 5, 20 May 83, pp 8-10

/Article by Xiao Nu /5135 1167/ and Lu Jiyao /4151 6060 5069/:
"Administrative Interference and Its Role in Planned Management in China"/

/Text/ How to understand administrative interference and its role in our nation's planned management is a question that has been talked about a great deal in the theoretical circle on reforming the system of planned management in our nation. This article explores this question as a lesson for all.

Correctly Understanding the Question of Administrative Interference

Administrative interference is the utilization of administrative means to interfere in the economy. What is meant by the utilization of administrative means to interfere in the economy? Concretely speaking, it means the state and its subordinate power organs use administrative powers directly related to social and economic life and use definite methods to influence and limit social and economic life. We should understand the question of administrative interference in the following two ways:

First, Administrative Interference Is Limited by Definite Socioeconomic Systems: We know that administrative interference is a method of economic management. It should be present in the economic life of all types of social systems. In a socialist society, administrative interference is conditioned by socialist productive relations. China has socialist productive relations based on the public ownership system. A planned economy is the inherent characteristic of a socialist economy. This inherent characteristic of the planned economy of socialism determines that administrative interference becomes an indispensable and important part of socialist economic life. The planned economy of socialism is the self-conscious and intentionally planned regulation of economic life by the state according to the objective requirements of the laws of the plans to guarantee that production by the entire society develops according to plan and according to the proper ratio so that production by the entire society pursues the goal of satisfying the ever-increasing needs in the material and cultural life of the people and masses. But, state plans cannot be realized spontaneously. In socialist economic life, the degree of socialization of production rises daily, and the relationship between producers expands throughout the national

economy. Every productive sector, enterprise and link in production is a part of the planned economy. Whether it is a state-run economy, a collective economy or some other economic system, everyone is an objective category of the planned economy. In this situation, the state must utilize administrative interference so that state plans can be implemented in all of the sectors of the national economy to guarantee that production by the whole society can develop according to plan and according to proportion. For more than 30 years since the founding of the nation, this has been well illustrated by the fact that administrative interference has always served importantly in our nation's economic life. If the internal link between administrative interference and the planned economy is severed, the full play of the superiority of the socialist planned economy will be affected. Of course, we cannot confuse the boundary between administrative interference and the planned economy. A planned economy is an inherent characteristic of the socialist economy. Administrative interference is a means of serving planned economy. In the present stage of socialism, the state is an administrative and managerial agency, on the one hand, and, at the same time it is the organizer and leader of economic activity. Because of this dual function of the state, it is very easy for people to confuse the use of administrative interference by the state and the planned economy itself. This becomes more outstanding especially when we have improperly utilized administrative interference and have hindered economic development. Therefore, if we do not see the link and the difference between the two, we will have doubts about planned economy today as we summarize the experience and lessons in economic construction over the past more than 30 years. We will even lead astray our understanding of reforming our nation's system of planned management.

It should be pointed out here that our nation's administrative interference is fundamentally different from "state interference" of capitalism. First, the two have different foundations. As described above, the use of administrative interference in socialist countries is conditioned by socialist productive relations. It is the product that suits the objective requirements of a planned economy. Capitalist "state interference" is conditioned by capitalist productive relations. It is the product of capitalist nations to satisfy the capitalists in realizing higher profits and stable profits from monopoly. Capitalist "state interference" has further strengthened under conditions of state monopoly capitalism, and this is illustrated by the characteristics of constancy and comprehensiveness. Second, the functions of the two are different. The use of administrative interference in socialist nations is to serve the socialist planned economy. It stimulates the development of the socialist economy by guaranteeing the realization of state plans to satisfy the ever-increasing needs of the material and cultural life of the people and masses. Capitalist "state interference" is interference to a definite degree at a definite time within a definite realm. It temporarily eases the basic conflicts of capitalism via so-called "planning." It cannot guarantee that production of the whole society will develop according to plan and in a balanced way. Also, regardless of the measure of interference, when it violates the basic benefits of the capitalists, it becomes void.

Administrative interference is not a category unique to capitalism. Although it is present in all social systems, and even though the bourgeoisie was the first to propose the theory of "state interference," only in a socialist society can administrative interference suit the objective requirements of the socialist economy and be an economic category that can fully develop its function in socialist economic life. The view that the use of administrative interference by the state belongs to capitalism and even the view that proposing such a category is Right deviationist thought is obviously inappropriate.

Second, Administrative Interference Is by Nature a Concrete Manifestation of Economic Reaction in the Superstructure: It necessarily must infiltrate the entire socioeconomic life and forcefully influence and limit socioeconomic life via the state's authority, therefore it is not an internal factor of socioeconomic life. In this way, there is the question of whether it can correctly reflect the objective requirements of economic laws. If it can correctly reflect them, it can stimulate economic development, otherwise it will hinder economic development. Therefore, the use of administrative interference must be scientific and suit the actual situation. To do this, state plans themselves must be scientific, and besides this prerequisite, the use of administrative interference must be organically combined with economic levers. Generally speaking, the vitality of the economy lies in the economy itself. The simple use of administrative interference to manage the economy itself violates the objective requirements of economic laws. As long as the two are organically combined, they can reflect the complex and variable situation of economic life in a versatile manner, adapt to the objective requirements in economic development, and guarantee that economic levers can fully develop their function.

For a long time, the mistaken method of simple administrative interference was used in economic management. There was too much control and the control was too tight. This created "blind command" and "mandates" in economic work and affected economic development. This should undoubtedly be corrected in the present reform of the economic management system. But we should realize that administrative interference is only one method of managing the economy. Whether it can correctly reflect the objective requirements of economic laws, fundamentally speaking, is determined by the guiding ideology in economic work. The fundamental reason for the two major upheavals in our nation's economic development is the "leftist" guiding ideology. Simply exercising administrative interference is in fact the concrete manifestation of the "leftist" guiding ideology in the method of economic management. Therefore, at present, some comrades have shifted from one extreme to the other extreme, blamed all of the mistakes in economic work on the use of administrative interference. They completely negated administrative interference and proposed the abolishment of the state's administrative interference in the economy. This way of doing things is incorrect.

In general, correctly understanding and using administrative interference are necessary and possible in theory and in practice. As Lenin said: "The nation is the realm of mandatory government. Only madmen will abandon mandatory

government, especially during the period of dictatorship of the proletariat. It is absolutely necessary here to handle problems by 'administrative means' and by administrative personnel." ("Selected Works of Lenin" Vol 4, p 457).

Administrative Interference Plays a Role That Cannot Be Neglected in China's Planned Management

Comrade Hu Yaobang gave a general and in-depth description of our nation's planned management in his report to the 12th Party Congress: "Planned production and flow are the main points of our nation's national economy. At the same time, unplanned production and flow regulated by the market are allowed. This means, according to the actual situation in different periods, the state uniformly sets a range for the laws of value to spontaneously serve a regulatory functions." This determines that our nation's planned management must involve the use of different forms of planned management according to different situations. Concretely speaking, this involves mandatory plans, guiding plans and market regulation. These three constitute the whole system of our nation's planned management. Insisting on these three types of planned management is the key to correctly implementing the principle of taking planned economy as the key and market regulation as supplementary. The function of administrative interference is concretely manifested in these three forms of planned management.

Mandatory plans are plans that are issued by the state to every production unit and that are administratively binding. The implementation of mandatory plans is also determined by the inherent characteristic of implementing a planned economy on the basis of the public ownership system in our nation. To guarantee that production by the entire society can develop according to plan and proportionally, the state must issue mandatory plans and goals for production and distribution that include production information and consumer information on the people's standard of living in the state-run economy, and especially for certain products of the economy of the collective ownership system and backbone enterprises that affect the whole economic situation. If the state cannot grasp the key sectors and enterprises of the national economy and cannot control the main forces of the national economy, it will not be able to stabilize the general economic situation. The development of the socialist economy according to plan and proportionally will become empty talk. Thus mandatory plans must be concretely implemented. Their implementation is realized mainly through the scientific utilization of administrative interference by the state. This is because, generally speaking, the production units of the economy of the collective ownership system and each sector and enterprise of the state-run economy can complete the mandatory plans and goals issued by the state. But we must also realize that the sectors and enterprises of the state-run economy are all relatively independent productive units. Production and marketing activities of productive units of the collective ownership system have an even greater autonomy. They all have their own economic benefits. Therefore, they have aspects that are fundamentally consistent with the mandatory plans issued by the state, and they also have various conflicts. For example, some state-run

enterprises will work hard when there is a large profit to reap, work less when there is only a little profit to be gained, and not work at all when there is no profit to be gained. They consider only their own percentage of profits and disregard the portion to be submitted to the state's treasury, or they will produce high-priced second-quality products that consume a great deal of materials. Some collective production units have greatly increased the planting area of economic crops and reduced the planting area of food grain crops. These phenomena will necessarily conflict with state plans. To solve these conflicts, the state must exercise administrative interference to guarantee the realization of mandatory plans, and enterprises and production units that do not complete state plans, especially those that interfere with and sabotage the realization of state plans must be forcefully stopped. In certain special situations, forced implementation is also necessary. This is entirely different from "mandates" and "blind command." Of course, as described above, while the state is exercising administrative interference, it must also self-consciously utilize the laws of value and price, taxes and credit and such economic levers according to plan so that mandatory plans are forceful and scientific.

Guiding plans are plans which are issued by the state to production and marketing departments to serve as a guide and a reference. They are not mandatory. Implementation of guiding plans must suit the actual situation of our nation's economy. In our nation's present stage, the development of productivity is relatively slow and very uneven, therefore many economic systems exist. The state cannot make an accurate calculation of the various types of complex demands of the society and the productive capability of many enterprises. In this situation, it is necessary to issue guiding plans. Guiding plans have some of the same features as mandatory plans but also have features different from those of mandatory plans, i.e., guiding plans are not mandatory. Their implementation is mainly realized by the state which self-consciously utilizes economic levers. They require the state to provide enterprises with varying degrees of mobility and economic benefits so that the enterprises can complete the guiding plans issued by the state actively and in a versatile manner as relatively independent production units. If the enterprises are controlled too tightly, mobility and versatility will be lost, and guiding plans will not develop the function they should have. But, the implementation of guiding plans does not mean completely shunning administrative interference by the state. This is because although guiding plans are not mandatory, they are also a part of state plans, and their realization or not also serves importantly in the development of the national economy. When production and marketing activities of enterprises are unfavorable to the realization of state plans or when economic levers cannot guarantee the realization of guiding plans, it is necessary for the state to carry out administrative interference. Only in this way can state plans be realized and the guiding plans be supplemented and perfected in the course of implementation.

Market regulation is spontaneous regulation by the laws of value within a definite scope uniformly planned by the state. It is unnecessary and impossible for the state to use plans to control production and flow regulated by the market. This part of production and flow arranges itself in a versatile manner

by enterprises and production according to supply and demand in the market. What will be produced, what will not be produced and how much will be produced are all regulated by the spontaneous forces of the market. Our nation's economic development proves that market regulation serves importantly to enliven the economy and stimulate economic development. But we should see that market regulation is spontaneous regulation and frequently will create waste of social wealth. This should be prevented in a socialist economy. Therefore, the state should also exercise necessary administrative interference in production and flow regulated by the market. As Comrade Hu Yaobang pointed out in his report to the 12th National Party Congress: "The state should strengthen control via policies and laws and industrial and commercial administrative work, and help them solve the problem in the supply of certain important raw materials." This has an important significance in fully developing the active function of market regulation.

(Responsible editor: Zhang Jiankang /1728 0256 1660/)

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ECONOMIC MANAGEMENT

BRIEFS

JILIN PRIVATE ENTERPRISE MEETING--From 14 to 16 September, Jilin Province held the first meeting of representatives from individually-owned businesses and enterprises throughout the province. Huo Mingguang, deputy governor of the province, attended and addressed the meeting that pointed out: The existence and development of individually-owned businesses and enterprises is totally in conformity with the country's reality and is required by the building of a socialism that reflects the characteristics of China. The meeting called for all-out effort to recruit the members for the party and the CYL from among individual laborers. [Summary] [SK180210 Changchun Jilin Provincial Service in Mandarin 1030 GMT 16 Sep 83]

CSO: 4006/016

FINANCE AND BANKING

AGRICULTURE LOAN POLICY EXPLAINED

Yinchuan NINGXIA RIBAO in Chinese 10 May 83 p 2

[Interview with unidentified responsible comrade of the Agricultural Bank, Ningxia branch: "Agricultural Loan Policy Relaxed To Enliven Rural Economy"]

[Text] [Question] What areas of the agricultural loan policy have been relaxed? What emphasis is given to your support?

[Answer] In the past agricultural loans had a very narrow scope and were basically limited to support of the need of funds for simple reproduction and for resolving peasant livelihood needs in food, clothing and medical treatment. At present the scope, target, use, loan period and maximum amount have all been relaxed in comparison with previous conditions. The loans support state-run, collective, agricultural and sideline and industrial and commercial enterprises as well as scientific, cultural and welfare endeavors and construction of small market towns, and they also support all types of rural contract households, specialized households, joint management households and individual industrial and commercial households to develop production. Loans both support grain production development and also support the development of economic diversification. There is relative relaxation of loans to individuals. Whenever policy permits, all individual commercial enterprises, handicraft industries, transportation industries and service trades need only have a forecast of better economic results, possession of a business license, respect for state policy and laws and decrees, a certain amount of funds, and resources for loan repayment so that if there are problems with funds they all can receive loan support. The emphasis of this support in the Yellow River diversion irrigated area still is grain production and development of grain production superiorities. Priority support for families specializing in grain helps them resolve the need of funds to start up and maintain the production process. In the southern mountain areas the emphasis is on planting trees and grasses to promote animal husbandry and agriculture and gradually restore the ecological balance. No matter whether it is in the river areas or in the mountain areas the agricultural bank and the credit cooperatives actively support state-operated agricultural production units, commune and brigade collectives and households with dual production contracts, specialized households to develop superior seeds, to raise cattle, to grow seedlings, and to popularize and apply new technology of applied agricultural science. Another area of focus is the support of rural commercial units in conducting the purchase, processing,

storage and transportation of agricultural and sideline products, organizing the rural-urban exchange of agricultural products and industrial products, and resolving the peasants' problems with sales and purchases.

[Question] If an individual peasant or combined households purchase a tractor or large or medium size farm implements and vehicles but lack sufficient funds will the bank grant a loan?

[Answer] The government permits individual peasants and combined households to purchase tractors and large and medium size farm implements and vehicles. From conditions in all parts of our autonomous region we see that most commune members who purchase tractors and vehicles have sufficient self-raised funds. The minority of commune members who lack adequate funds need only authenticate their production needs, get permission from the proper authorities, have the right technology, have a guaranteed fuel supply, have 50 percent of self-raised funds and the bank will take these things into consideration in providing loan support. The focal point of support is for the tractor-plowing households and specialized transportation households in the agricultural production services.

[Question] Our autonomous region has abundant natural resources. What plans and regulations does the agricultural bank have for developmental loans?

[Answer] Developmental loans are provided on a trial basis to develop and protect our resources and to nurture and create new superiorities. Developmental loans are suitable for developing and utilizing nonarable natural resources such as barren hills, grasslands, water areas, and sandbanks. Lands already reclaimed for cultivation, mountain forests, aquatic breeding areas, commodity grain bases, the development of industrial and sideline enterprises and large-scale construction of water conservancy works all do not qualify for developmental loans. According to conditions in our autonomous region, in the hilly areas there is emphasis on support for all types of contract households, specialized households, and combined operations households in developing barren hills, planting trees and grasses, or for rebuilding secondary forests. In the river areas there is emphasis for support of all sorts of contract households, specialized households and combined operations households to develop and utilize water areas, raise fish and plant lotus roots. The time limit for developmental loans is generally fixed at 5 to 10 years, with monthly interest at 0.36 percent, which is lower than that for most loans and categorized as a low interest loan on favorable terms.

[Question] The autonomous region must make a strong effort to develop the Yellow River irrigated area and carry out planned immigration for land reclamation. How will the agricultural bank support this?

[Answer] Planned immigration for land reclamation is an important action which utilizes and develops the superior features of the area irrigated by the Yellow River. This has the concern and support of the concerned departments of the party Central Committee and the State Council, and the state annually puts out a special fund for land reclamation immigration. In addition to help rendered to key localities from the state, if the immigrant families encounter any

temporary difficulties in raising funds for production or livelihood the agriculture bank will take this into consideration in providing loan support. What must be explained is that financial investment (by the state) need not be repaid while bank loans are to be repaid with interest on schedule.

[Question] After the countryside implements a contract responsibility system what advances did the agricultural bank make in cash management and in the system of settling accounts?

[Answer] In order to respond to the new situation in the countryside, the agricultural bank has made appropriate readjustments and improvements in cash management and in the system of settling accounts. These primarily are progress in making it more convenient for the contract households, specialized households, and combined operations households and individual industrial and commercial households to make deposits and withdrawals and settle accounts. For example, after a peasant sells agricultural and sideline products, those who want cash receive it while those who want to transfer funds have that done for them. Whoever owns the money has it credited to their account. The bank does not represent any unit or individual in deducting funds. In settling accounts, we have been implementing the method of letting brigades, teams, groups, or households, hand over and settle accounts by themselves. In addition, accounts are settled as they are turned over. As for the state organs, groups, enterprises and institutions, they still operate under their original cash management system and original method of settling accounts.

11582

CSO: 4006/564

FINANCE AND BANKING

ROLE OF BANK REFORM DISCUSSED

Chengdu SICHUAN RIBAO in Chinese 7 May 83 p 1

[Article by Staff Commentator: "Bank Reform Is a Key Link in Economic Reform"]

[Text] Banks are a comprehensive department of the national economy which are national centers for loans, settling accounts and cash movements and as such play an extremely important role in constructing the socialist four modernizations. In restructuring the economic system, bank reform is a link which cannot be overlooked and which must be properly executed in order to suit and promote development of restructuring the economic system.

Bank reform must proceed from overall economic reform and serve construction of the four modernizations. The restructuring of the economic system requires that the banks carry out suitable reforms in the management systems of loans, savings deposits, interest rates, settling accounts, cash, foreign exchange and insurance. Ever since the 3d Plenum of the 11th CPC Central Committee, the provincial People's Bank has made initial reforms with fairly good results in the three areas of credit management, planning management and financial management. They made medium and short term equipment loans to support the enterprises in tapping potentials, in renewal and in transformation. From 1979 to the end of 1982 they loaned a total of 1.27 billion yuan which increased output value by 2.4 billion yuan and added 530 million yuan in taxes and profits. These facts tell us that bank credits are a major economic lever and that bank reforms are able to play a positive role in economic reforms.

Economic reform in Sichuan is gradually making more progress. In the countryside the production responsibility system is being improved and consolidated; agriculture, forestry, animal husbandry, household sideline occupations and fishery as well as rural commerce have all already demonstrated new changes and developments. Urban commerce and industry are now carrying out the change from profit delivery to taxation and implementing a variety of forms of the management responsibility system, such as the contract system, but the individual economy still needs to make suitable developments. All departments of the national economy are now shifting to the path of focusing on improving economic results. The banking departments must keep up with the times, clarify the situation, bravely carry out reforms and bravely make renovations. The provincial People's Bank recently suggested some new reform measures in the areas of the loan and cash management systems in order to accelerate the turnover of funds, to support enterprise technological transformation and to

respond to the new situation in reform of the sphere of commodity circulation. These reforms are timely and necessary. After making progress in the economic reforms the banking departments must also continuously research the new conditions, resolve new problems, sum up new experiences and establish new rules and regulations in order to support economic reforms and promote economic development.

Progress in bank reforms must focus on the concept of improving economic results in the entire economy. The economic results of bank loans must be observed and studied along with economic results in the entire economy. The extent of economic results achieved in the entire economy is a major indicator for measuring what has been achieved in bank reforms. Proceeding from improving economic results, the Sichuan People's Bank, in 1982, tested a new method of granting circulating fund loans with floating interest rates in a number of industrial and commercial enterprises. According to the new method, if the turnover of circulating funds was slow the interest rate went up, and vice versa. Because the new method brought the lever of interest into full play, it stimulated the enterprises to improve management and accelerated the turnover of funds. Although the banks had lower income from interest payments this was exchanged for improved economic results in the entire economy, and the turnover of funds was speeded up, which made the bank loans produce smaller income with a greater amount of work. These facts explain that in improving economic results in the entire economy the only way that bank reforms can take the correct direction is to closely unite microeconomic results with macroeconomic results. Therefore, the bank as a department of the socialist economy must establish an overall concept and place the support and promotion of the improvement of economic results in the entire economy in a primary position while undertaking its own reforms.

While the bank is carrying out bank service reforms by focusing on economic reforms, it must be carrying out reforms of the management system within the bank to improve the management standards and provide even better services to economic development. In order to improve management standards it is necessary to strengthen economic accounting, implement the system of personal responsibilities, link responsibilities to awards, closely unite responsibility, authority and profit, explore and promote a management responsibility system suitable for the special features of banking and thoroughly mobilize the enthusiasm of the bank staff and workers. It is necessary to improve the work style and work methods, improve market forecasting, improve the level of economic information, strengthen research in banking theory, and promote a healthy progressive trend in bank reforms.

Bank reform must be both resolute and conducted with guidance and planning. Bank work has broad-ranging involvements, and is an important issue of policy so the reforms cannot be too slow nor can they be too rapid. They must be realistic, take the mass line, carry out serious investigations and studies, reform each item upon clearly understanding it, perform standard testing and only then take step-by-step actions. There must be firm support of the principle of all-round considerations and arrangements for the nation as a whole, and each step of the reform must be considered in the light of its implications for the overall national economy. Only in this way can bank reforms achieve the expected results and only in this way can bank work make an even greater contribution to the four modernizations.

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FINANCE AND BANKING

SHANGHAI KUAIJI ON SUBSTITUTION OF TAX PAYMENT FOR PROFIT DELIVERY

Shanghai SHANGHAI KUAIJI [SHANGHAI ACCOUNTING] in Chinese No 6, 25 Jun 83
pp 2-4

[Article by Wang Dunji [3769 2415 3444]: "The Implementation of Substituting Tax Payment for Profit Delivery by the State-run Enterprises is a Major Reform"]

[Text]

(I)

The substitution of tax payment for profit delivery in the state-run enterprises is an important aspect in the reform of the economic system of management and is a reform in the orientation of handling the relationship of distribution between the state and the enterprise. It is proposed on the basis of the reform of the enterprise financial system of organization and the trial implementation of the substitution of tax payment for profit delivery over the last few years. Since 1978, we have successively implemented the system of enterprise funds and the various forms of economic system of responsibility such as the method of profit retention, assuming-responsibility for profit and loss and substitution of tax payment for profit delivery. Through these reforms, we have changed the condition of state monopoly of revenue and expenditure, over-centralization and inflexible control which existed for a long period of time in the financial system of management, appropriately expanded the autonomy and flexible financial strength of the enterprise, mobilized the enthusiasm in production of the enterprise and its employees, enhanced production increase and increase of income and enlivened the economy; and have promoted technological transformation as well as arranged labor employment and solved the problems that have come down from many years in the employees' livelihood. These reforms have played a positive role in the above respects. On this basis, the implementation of the substitution of tax payment for profit delivery has the following points of important significance:

1. It can basically solve the problem of eating out of the "same big pot" in the relationship between the state and the enterprise. It can also shatter step by step the boundaries between districts and departments, enable the enterprise to have responsibility, authority and benefit, develop production according to the objective laws of the economic development, raise the economic results and truly make it possible to award the advanced and urge on the backward. If we leave the profit after taxation with the enterprise for its disposal, we will further expand the autonomy of the enterprise and increase

its mechanism. After the enterprise has paid its taxes, it will shoulder its own profits and losses. This will also increase the pressure on the enterprise. Having mechanism and pressure, the enterprise would have additional vigor, which will be favorable to enhancing the enterprise's establishment and perfection of its economic system of responsibility, tap potentials in the midst of improving its business management and increasing production and income, and create more wealth for the state.

2. After the total implementation of the substitution of tax payment for profit delivery, the enterprise will pay its taxes in accordance with the type of tax and rate of taxation stipulated by the state. This will be more stable than profit delivery to the state. Also, such conditions as dispute over the base figures, dispute over the proportions and the frequent readjustments and changes that occur with profit retention and contracting of profit and loss will not occur.

3. In accordance with the needs of the macroeconomic policy decision and in light of the different trades and undertakings, enterprises and conditions of product supply and sales, the state can impose new taxes and readjust the rate of taxation, and use taxation as an economic lever to implement additional taxes or tax reduction and exemption in order to encourage, restrict and regulate production and distribution.

4. After the substitution of tax payment for profit delivery, regardless of the subordinate relationship of the enterprise, we must impose taxation on the localities where the enterprise is. This will enable the enterprise to have a clearer sense of duty toward the state financially, will be favorable to shattering the boundaries between departments and districts and reduce the unnecessary administrative interventions and will be favorable to reforming the economic system of organization in accordance with the objective economic laws.

5. It will be favorable to correctly handling the relationship between the state, the enterprise and the employees. It will enable the state financial revenue to increase steadily, and will also enable the enterprise to know how things stand and make arrangements in a planned manner to attain financial strength while increasing its income.

6. It will create the conditions for the transition in the future to the classified system of management of financial revenue in accordance with the types of taxation. This will be favorable to the finance of the party Central Committee and the finance of the localities for having a steadily increasing source of income.

Thus, the substitution of tax payment for profit delivery is a major reform. This reform will bring about a better management standard, a better financial resource and a better financial revenue, and will speed up the four modernizations.

(II)

In substituting tax payment for profit delivery, we must abide by the following principles:

1. We must handle properly the interests between the state, the enterprise and the individual. The reform must take care of both ends. One end is to enliven the enterprise. The other end is to let the state get the largest share, the enterprise get the next largest share and the individual get the smallest share. The so-called letting the state get the largest share means that the enterprise will let the state get the largest share in the newly increased income (including the profit and the income tax) each year. It does not mean calculating the portion of what the enterprise originally turned over to the state together with the newly increased portion. This is because the portion that was originally turned over to the state has already formed the base figure for the various items of financial expenditure and cannot be redistributed. That which can be redistributed is the newly increased portion of the income.

2. We must handle properly the relationship between responsibility, authority and interest. In business management, we not only must enable the enterprise to have vigor and enable them to feel that there is much to struggle for, we must also impose pressure on the enterprise and enable them to realize that they will not survive if they do not work hard. Thus, the state must not be too gentle with the enterprise. It must implement the principle of awarding the hardworking and punishing the lazy and persevere in high standards and strict demands in order to attain results in the reform. It must carry out rational readjustment on the profit retention that is either too high or irrational. The enterprise must take into consideration the situation as a whole, take care of everything around it and must not only safeguard its vested interest.

3. The level of profit retention of the enterprise will basically maintain the level of last year, and the state will neither squeeze out nor give in to the enterprise. If the enterprise wants to attain more, it must rely on increasing production and increasing income and raising economic results.

(III)

There have been published documents on the specific methods of substituting tax payment for profit delivery. So we will not reiterate them here. In the concrete implementation, we must pay attention to the following policy issues:

1. The issue of the level of profit retention of an enterprise.

The level of profit retention for the whole country will be basically controlled by the level that was fixed at the national planning conference last year. The Ministry of Finance asks that the Shanghai local industries reduce tens of thousand yao in profit retention compared to last year. The profit retention of the various industrial bureaus in Shanghai was drawn in accordance with the methods stipulated by the state and can therefore be maintained at the level of last year. But, rational readjustments will be made toward the excessive and redundant profit retention that is not in accordance with the methods stipulated by the State Council as well as toward the profit retention that is obviously irrational.

2. The issue of the base figures in the method of profit delivery to the state by the enterprise after taxation.

The base figures in the method of profit delivery to the state by the enterprise after taxation must take the realized profits in 1982 as the base figures, and will be calculated after readjustment, using the method of expenditure listing of the welfare and bonus items stipulated by the state. But we must differentiate the situations and look ahead and behind. We must not be lenient toward the backward enterprises, and must whip the slow and lazy cow. Of the 11 industrial bureaus in Shanghai Municipality, besides Jinshan and Gaoqiao which fall within the jurisdiction of the Central Authorities, and the metallurgical industrial bureau and the textile industrial bureau which will still implement the originally stipulated methods this year, the remaining 7 industrial bureaus will regulate their tax rate by 33 percent on the basis of the base figure calculated from the 1982 final accounts. As for the accounting targets, we will generally take the bureaus (or companies) in charge as the accounting units.

3. The issue of the criteria for classifying the small-scale enterprises.

The Ministry of Finance agrees to the following criteria for classifying the small-scale enterprises in Beijing, Tianjin and Shanghai: Those industries that have an original value of fixed assets below 3 million yuan and at the same time an annual profit below 300,000 yuan; and retail businesses that do not have more than 20 to 30 employees and an annual profit under 30,000 or 50,000 yuan. The commerce-run industries will be classified according to the criteria for small-scale industrial enterprises.

4. The issue of the source of funds for the enterprise in the repayment of loans. In repaying the loans, the enterprise can use the newly increased profit after the loan project enters production, and make repayment before taxation. But the loan project must use 10 to 30 percent of the enterprise's own funds. In this way, the repayment of loans will be shouldered by both the state and the enterprise and the increased profit will also be enjoyed by both the state and the enterprise. As for the individual projects that have social results, besides lengthening the period of repayment, with the approval by the financial department, repayment could be made using a portion of the profit year by year for the purpose of encouragement.

5. The issue of the change in prices and tax rate.

After implementing the substitution of tax payment for profit delivery, when we encounter the situation in which the readjustment of prices and the change in tax rate affect the enterprise's profit, we will not make any readjustments with the exception of that which encounters a relatively great change and which is exclusively approved by the State Council.

6. The issue of the calculation of the rate of regulatory tax.

The methods are stipulated as follows: The portion of base figure of the profit for those enterprises that implement the regulatory tax will be calculated and paid according to the ratified rate of regulatory tax. As for the portion

of profit increase compared to the preceding year, 40 percent of the rate of regulatory tax will be imposed for the purpose of encouragement. In calculating the ratified rate of regulatory tax, we will take as the basis of calculation the realized profit in 1982 and will not take out the official individual profit retention and the repayment of appropriated loans for capital construction and special item loans. But in calculating the base figures of the profit for 1983, we should make calculations after taking the above out.

For example, the realized profit being 1 million yuan, the individual profit retention and repayment of loans being 100,000 yuan, the level of profit retention for 1982 will be 100,000 yuan. If the actual results of the 2 years are the same, but the results of the regulatory tax calculated show a difference in the level of profit retention, then the balance of the calculation will be as follows:

Item	1982 1 million yuan (with- out reduction of pro- fit retention and loans repayment)	1983 900,000 yuan (with reduction of pro- fit retention and loans repayment)
<u>Profit calculated tax</u>		
55 percent of the designated income tax:	550,000 yuan	495,000 yuan
Level of profit retention:	100,000 yuan	
Rate of regulatory tax:	35 percent (ratified)	315,000 yuan
Amount of regulatory tax:	350,000 yuan	
Actual profit retained:		90,000 yuan

7. The issue of the proportion of the five funds in the profit retention of the enterprise.

The Ministry of Finance stipulated that: The proportion of the first three items of the five funds (the fund for the trial manufacture of new products, the fund for production development and the reserve fund) must not be lower than 60 percent; and the proportion for the last two items (the employee welfare fund and the awards fund) must not be higher than 40 percent. We suggest that our bureaus join in with the concerned departments in ratifying the above proportions separately in accordance with the actual situation and that we basically maintain the criteria ratified by the labor departments for 1982 in regards to the level of the employees' bonuses. Boycotting bonuses is not a good method. If we do not, then we need to create many conditions. The present scope of increase in wages and bonuses must not be higher than the labor productivity, and the rate of profit increase and the scope of increase of the level of per capita profit delivery as well as the wage content in the unit cost must also not be raised.

8. The issue of the employee welfare fund.

After implementing the substitution of tax payment for profit delivery, we must calculate as our cost the employee welfare fund, which is 11 percent of the total wage amount and carry out corresponding readjustment to the realized profit and profit retention of 1982. To simplify the steps of calculation, we can look at the total wage amount in the final accounting report and, after taking out the various kinds of bonuses and the per capita non-staple food subsidy for the whole year, calculate the welfare fund that should be readjusted.

9. The issue of handling the profit retention that is too high or too low after taxation.

The scope of the so-called too high or too low should not exceed 50 percent. One does not have to make profit delivery after taxation within this scope.

10. For those who had already implemented the various methods of contracting and the method of substituting tax payment for profit delivery before the draft of the methods of trial-implementation was issued, we should handle the situations separately as follows:

(1) The commercial wholesale stations at various levels, the large-scale and medium-scale commerce-run industries or the retail commercial units must not carry out profit contracting. Those who were engaged in doing so could make changes in accordance with the unified methods of substituting tax payment for profit delivery.

(2) The small-scale retail units must implement profit contracting after they have paid the 8th grade surplus progressive tax. For those who have carried out contracting in accordance with the total amount of profit, corrections must be made this year if the problems are major and corrections can be postponed till next year if the problems are not major or if there are difficulties.

(3) In respect to industry, those that have implemented the method of the Capital Steel Company with the approval of the State Council, the State Economic Commission and the Ministry of Finance can continue to do so. The Shanghai metallurgical bureau will make changes next year, and the textile industrial bureau will make changes this year. The various localities which have implemented the methods on their own will make reports anew to the State Economic Commission and the Ministry of Finance for examination and approval. The Shanghai Standard Parts Company and the bicycles company have already submitted their reports for examination and are awaiting approval. Those that are deliberating must not engage in other methods. The localities which are already engaged in other methods of contracting, if they can make changes, must change over to the methods of trial implementation. Those that have difficulties can make changes next year. (This is not postponing the substitution of tax payment for profit delivery.) For those that are postponing the change to next year, they must in principle make calculations based on the base figures for 1982 in order to prevent the difference in the level of profit retention of the enterprise and the imbalance of weal and woe among the enterprises.

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FINANCE AND BANKING

BRIEFS

FUJIAN BONDS IN JAPAN--At the end of August the Fujian Investment Enterprise Company successfully sold 5 billion yen worth of bonds in Japan. Comrade Zhang Yi, vice governor Fujian Province and chairman of the board of the Fujian Investment Enterprise Company, said this has given the province experience in raising funds, enabled the province to establish a closer relations with international financial organizations and raised funds for the province's economic construction. [Summary] [Fuzhou FUJIAN RIBAO in Chinese 7 Sep 83 p 1 OW]

CSO: 4006/016

INDUSTRY

JIANGJI GUANLI ON MILITARY-CIVILIAN PRODUCTION

HK230415 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 83 pp 13-15

[Article by Giu Jingji [6726 7231 1015]: "Unite and Carry Out Military-Civilian Integration--An Investigation Into the Economic Combination That Produces 'Jialing Brand' Motorcycles"]

[Text] The economic combination that produces "Jialing Brand" motorcycles was established in September 1980. It is a loosely organized complete and coordinated economic combination of military and civilian industrial enterprises with Chongqing Jialing machine building plant as its center formed on a voluntary basis under the prerequisite of maintaining unchanged their ownership and relationships of affiliation and finance through breaking the boundaries of ownership and affiliation relationships between different trades and between different areas. This combination consists of three military industrial and five civil industrial enterprises. In addition, there are more than 100 military and civil industrial enterprises that coordinate with this combination to form a complete set for the production of motorcycles. Their combination has a few new distinguishing features, and provides beneficial experience for military-civilian integration.

The Process of the Development of the Economic Combination

In 1979, after the CPC Central Committee put forth the guiding principle of readjusting, restructuring, consolidating, and improving our national economy, the Jialing machine building plant conscientiously made a policy decision in selecting its major products for civil use in order to readjust its product mix and to expand its service sphere. Their guiding thoughts were: 1) "Giving away the major channel" and refraining from "scrambling for a market share" with the civil enterprises and from carrying out unnecessary duplicate production; 2) selecting types of products for civil use that would facilitate raising the technical level of war industrial production; 3) the selected products for civil use must meet the demands of society and be suited to the purchasing power of the masses of people. According to these guiding thoughts, they selected 2.5 horsepower pedal- and machine-propelled motorbikes as their major type of product for civil use. Because, at that time, there were no factories at home that produced this new means of locomotion, they successively sent people to several foreign countries to investigate motorbike production and to discuss problems related to cooperation in production. The

negotiations failed because the foreign countries demanded an excessive price for cooperation in production. The broad ranks of staff and workers of the Jialing factory were determined to manufacture the motorbike without foreign aid and through their own efforts in order to win credit for their motherland. Beginning from May 1979, the spent only 5 months in successfully manufacturing the first batch of well-functioning sample motorcycles in accordance with the pattern of an imported motorcycle.

Because the "Jialing Brand" motorcycle has the merits of being beautifully shaped, functioning well, and being easy to drive and comfortable to ride, once they were put onto the market for trial sale, they won the affection of the masses of people. For a time, the contradiction between supply and demand was very acute. However, the Jialing plant had a limited area of factory premises and equipment for motorcycle production. Moreover, because when it began small batch production in 1980, except for rubber and plastic components and the pulling sinew string, all the components, including the engines, revolving tanks, clutches, carburettors, magnetic generators, frames, fuel tanks, and noise elimination apparatus were produced and all the casting done by the plant by itself, the plant was unable to increase its motorcycle output. In particular, the plant's punching, pressing, and metal-cutting capacity was surplus in some aspects and fell short in others. It had to allow the surplus facilities to lie idle to maintain production equilibrium in accordance with its insufficient facilities. As a result, motorcycle output in 1980 was only 2,500, which fell short of the demand in the market. In order to expand production capacity and satisfy market demand, the plant had two alternatives: 1) to ask for investment from the state and to spend several years carrying out extensions (according to estimates, it takes an investment of 17 million yuan and a period of 3 years to form an annual production capacity of 100,000 motorcycles); or 2) to chart a new path of setting up a combination to develop production, a shortcut that requires little investment and can achieve rapid speed. It selected the latter alternative and has shifted from the original situation of utilizing only its own surplus capacity for producing military products to produce motorcycles to the practice of combining the production factors and technology of a number of war and civil industrial enterprises which have the professional technology and expertise in producing motorcycle spare parts and components to develop jointly the production of the "Jialing Brand" motorcycles. At that time, those enterprises which applied to join the combination were all faced with the difficulty of lacking production orders. They all urgently wanted to find a way out through setting up an economic combination jointly to develop marketable products. That was why, in September 1980, under the condition of "maintaining three things unchanged," they comparatively smoothly broke down the boundaries between central and local jurisdiction, between war and civil industries, and between the state-owned sector and the collective sector and established the economic combination for producing "Jialing Brand" motorcycles.

In order to enable the technical functioning of the motorcycle for each the international advanced level, they also developed international technical cooperation. For example, in carrying out technical cooperation with relevant Japanese units, Jialing plant has introduced some advanced examining and testing instruments and precision equipment for special purposes and thus

improved its production technology in producing certain kinds of spare parts. After the improvement carried out in the new type of motorcycle, technical cooperation has become more reliable and its gas consumption has been reduced by 32 percent. Now this new type of motorcycle has already been put on the market.

The Basic Method for Establishing a Combination

The economic combination for producing "Jialing Brand" motorcycles has been established on the basis of the principle of voluntariness, mutual benefit, and consultation of an equal footing. Their concrete methods are:

1. Under the prerequisite of "maintaining three things unchanged," they carry out close cooperation to form a complete set. The combination has worked out an overall production plan in the light of state planning and the actual demands of society and has carried out a rational division of labor according to the production conditions and technical expertise of the various member factories. After the division of labor is defined, that is, after the combination has used economic contracts clearly to define the cooperation requirements, all the factories must conscientiously guarantee the fulfillment of the contracts. All the member factories must organize their production and examine the quality of the products they hand over to the assembly plant in strict accordance with the product blueprints and the technical requirements which are approved by the management of the combination. None of them is allowed to revise without authorization the blueprints and technical requirements. The raw materials needed by the member factories in producing motorcycle components are reported to the state by the assembly factory in a centralized manner. These materials are delivered at fixed locations for the consumption of various member factories. After consultation, some of the raw materials can be ordered and purchased by member factories on their own under the condition of guaranteeing the required quality. The motorcycles are sold by the assembly factory through signing contracts with external buyers. Most of the sales are brought into the planned channels of the relevant departments and only a small part of the sales are done independently.

2. The combination has selected the best enterprises for carrying out cooperation and has expanded the scope of cooperation. In organizing the economic combination for producing the "Jialing Brand" motorcycle, the Jialing plant did not take all enterprises that were related to motorcycle production into combination. Twenty percent of the motorcycle components are produced by the cooperation of enterprises outside the combination. At present, there are more than 110 enterprises altogether outside the combination which cooperate with the combination in forming a complete set to produce that type of motorcycle. In order to guarantee the quality of the products, to reduce production costs, and to sharpen its competitive edge, the Jialing plant has adopted the method of comparing the products of three enterprises and thus has selected the best enterprises to cooperate in forming a complete set. It continues to readjust the relationships of cooperation in forming a complete set in accordance with the principle of ensuring a reliable quality, rational pricing, equality, and mutual benefit. For example, the specialized enterprises affiliated to ministries charge 29 yuan for each set of the 43 springs used in

a motorcycle, while the local workers and peasants spring factory only charges 8.70 yuan. The quality is about the same but the difference in price is more than 200 percent. Therefore, the workers and peasants spring factory was selected to be the factory of cooperation in forming a complete set.

3. Internally, the combination adopts the economic means to implement the principle of mutual benefit. The basic method is carrying out double distribution. The first distribution is to fix an overall target for the cost of one motorcycle and then to fix the transfer prices of each part and component in accordance with the proportions of the cost that the member factories incur in producing these parts and components. The margin between the practical cost and the transfer prices will be borne by the member factories by themselves, whether it means a profit or a loss. The second distribution is a sharing of the final after-tax profit or loss resulting from the margin between the motorcycle's budgeted cost, fixed by the combination, and the motorcycle's budgeted cost, fixed by the combination, and the motorcycle's selling price, fixed by the organization at an upper level. Each member factory gets its share of profits in accordance with the proportion of the spare parts and components and the assembly cost they incurred in the budgeted cost of a complete motorcycle. This double distribution rationally solves the problem related to the distribution of economic interests among the various member factories, so they all are not only concerned with the economic results of the combination but also do a good job of maintaining their independent accounts and continue to improve their production administration and management. When a profit is earned, generally speaking, the combination should distribute it entirely among all the member factories in the second distribution. However, under certain special conditions, whereby some member factories have suffered temporary financial difficulties and losses owing to objective causes, the combination should proceeding from the spirit of solidarity and mutual aid, give them appropriate subsidies in the second distribution in order to give play to their initiative in jointly doing a good job of production management and to speed up the development of production.

4. The combination has established its leading organization according to the principle of consultation on an equal footing. Each of the member factories assigns one representative to a management panel of the combination, which serves as an authoritative organization. The main tasks of this management panel are carrying out democratic consultations on the important issues in aspects of production, technology, and finance and guaranteeing the smooth progress of motorcycle production. The management panel holds a plenary session [words indistinct] and, if necessary, a meeting can be held at any time. In the past period of more than 2 years, in handling their mutual relations, all the member factories have displayed the spirit of cooperating in unity and respecting, supporting, and developing one another. In particular, the Jialing Plant, which serves as the center of the combination, pays greater attention to being strict on itself, treating others on an equal footing, and handling affairs through consultation; and has done its best to help other member factories in solving the problems related to production and technology.

An office has been set up under the management panel to be responsible for inspecting and supervising the implementation of the panel's resolutions and

decisions in the various member factories, and coordinates the work of production and technology in the various factories.

The Beneficial Results Acquired From the Combination

1. The existing foundation is utilized to develop a new productive capacity. Before the combination was set up, the Jialing plant had forecast that under the situation of a reduction in the tasks of producing military products, if the plant maintained certain capacity in producing military products and allocated all the factory buildings, equipment, technology, and manpower available to the production of the motorcycle, then in 1981, it could only produce, at most, 30,000 motorcycles. After the establishment of the combination, all the existing foundations such as factory buildings, equipment, technology, manpower, and capital of the member factories were fully utilized and the existing production line was readjusted and strengthened to some extent. Immediately, in that year, a comprehensive capacity for producing 100,000 motorcycles per annum was developed, while the Jialing plant's assembly capacity rose to 200,000 motorcycles. The investment totaled 6.3 million yuan, which was nearly one-third of the estimated investment for expanding the original investment of the Jialing plant. Because of the development of new comprehensive production capacity, motorcycle output has been able to increase quickly. In 1981, 50,000 motorcycles were turned out and in 1982, though the increase in production of maintenance spare parts limited the output of assembled motorcycles, the Jialing factory still managed to produce 70,900 motorcycles. If the combination carries out some further reform, it is estimated that the combination carries out some further reform, it is estimated that the combination's comprehensive production capacity will reach the level of 200,000 motorcycles by 1985.

2. The combination gives full play to the technical advantages of the various factories and raises their technological level. As soon as the combination was established, a division of labor for specialization in the process of production was carried out in the light of the technical expertise and advantages of the various member factories in order to give full play to that expertise and those advantages. For example, the Jialing plant has relatively advanced cold working equipment and technology and is experienced in producing bearings, therefore, it is assigned the task of manufacturing the frame, magnetic generator, and other components of the motorcycle and assembling the motorcycle. The Puling machine building plant which originally made 3 horsepower gasoline engines for agricultural purposes and the Huawei electronic equipment plant which originally made 3 horsepower gasoline generators are assigned the task of jointly producing the engines of the motorcycle. The Hongshan casting plant which is well specialized in precision casting and die-casting is assigned the task of casting blanks for motorcycle production. Because a division of labor for specialization in the process of production is carried out among all the member factories of the combination in the light of their technical expertise and advantages and, in addition, because the management panel has adopted effective measures to strengthen technological management in order to guarantee and improve the technical function of the motorcycle, it has enabled all the member factories to give full play to their professional expertise and to improve their professional technology.

3. It has improved the quality of its products. In developing its motorcycle production, the combination has laid particular stress on producing products of fine quality in order to safeguard the reputation of the "Jialing Brand" motorcycle. It requires all its member factories to develop the activities of establishing new standards for fine quality in the light of the technical requirements for products of fine quality, and thus vigorously grasps its overall management over quality control. It has paid relatively close attention to the work related to the technical foundation and has sorted out, checked, added to, and improved the blueprints, technical requirements, technology, and assembling procedures for its products. It has established and perfected a complete technological management system set to guarantee the quality of its products, and has strengthened the maintenance of its equipment for special purposes. It has also made, on its own, more than 400 kinds of examining and testing apparatus and has purchased advanced examining and testing instruments in order to ensure the stability and improve the quality of its products.

4. It has improved its administration and management. Since the establishment of the combinations, it has vigorously strengthened, in accordance with the principle of fixing production targets in the light of market demand and under the guidance of state planning, its market research work in the following three aspects: 1) It has organized a number of administrative and managerial cadres to go to various areas throughout the country to carry out market research and to make forecasts; 2) on the basis of 144 technical and maintenance service centers for "Jialing brand" motorcycles that it has established throughout the country, it has formed a nationwide market intelligence network and thus, through carrying out "three guarantees," giving technical guidance, visiting customers, surveying the demands of society, and collecting customers' opinions on the function and quality of its products, it has improved its policy decisions related to production and management; and 3) it has assigned people in the head office of its factories, in its overall quality management office, and in its marketing and purchasing department to be specially responsible for handling letters from customers. As the information channels are unblocked, it can be promptly informed of the market situation. This has created favorable conditions for the making of correct policy decisions. For example, in the latter half of last year, its motorcycles, which have always been in short supply, suddenly became unsalable. Through its intelligence network, it immediately found the cause: 1) Some of the big cities had levied an excessive responsibility insurance premium of 56 yuan, so its customers reflected that they could afford the price of the motorcycle but could not afford the incidental charges on the motorcycle; 2) at the beginning of that year some products of questionable quality were put on the market and they had a bad impact on the reputation of its products; 3) there was a shortage in the supply of spare parts for the maintenance of the motorcycles; and 4) a shortage in railway transportation facilities delayed the delivery of its products and thus had a bad impact on the implementation of its sales contracts. In order to counter these problems, it has formulated the management policy decision of "putting customers first and giving priority to quality" and "ensuring four things and shifting one thing." What is called "ensuring four things and shifting one thing" is: 1) giving priority to quality and ensuring the marketability of its products by attaining

a fine quality standard for its products; 2) organizing its production in the light of market demand and thus ensuring the marketability of its products by fixing rational production targets; 3) promptly organizing the delivery work and ensuring the marketability of its products by means of delivering them in a timely manner; and 4) strengthening the work related to after-sales service and ensuring the marketability of its products by providing satisfactory maintenance service; and while consolidating its market in big cities, shifting its sales gradually onto medium-sized and small cities, mining, forestry, and pastoral areas, and remote areas and thus continuously opening up new markets and increasing the sales of its products.

5. It has promoted the war industrial enterprises' own development. The practice of war and civil industrial enterprises forming combinations in developing production of civil products has vigorously promoted the war industrial enterprises' own production. This has mainly been displayed in the following aspects: 1) It has enabled war industrial enterprises to give better play to their strong points and to fully utilize their surplus production capacity; 2) it has promoted war industrial enterprises in developing their technology and improving the quality of their products; 3) it has promoted the continuous improvement in the administration and management of the war industrial enterprises. In jointly developing motorcycle production, the Jialing plant has developed the activities of attaining high quality standards for both its military and civil products, and in last year's product quality examination and evaluation, its major military products were evaluated as products of fine quality and the plant was also evaluated as an "advanced enterprise in producing civil products."

CSO: 4006/014

INDUSTRY

GUANGXI CORRECTS MALPRACTICES IN CEMENT PROJECT

OW190143 Beijing XINHUA Domestic Service in Chinese 1425 GMT 11 Sep 83

[Report by Zhang Zhilin]

[Text] Nanning, 11 Sep (XINHUA)--Paying great attention to the important written instructions issued by a leading comrade of the party Central Committee on serious evil practices in the expansion project of the Liuzhou Cement Plant and an investigation report by a team of the State Council, the CPC Committee and People's Government of the Guangxi Zhuang Autonomous Region have conscientiously organized the relevant departments and personnel to examine their mistakes and to study remedial measures. They have also sent personnel to the Liuzhou Cement Plant to carry out such measures one by one.

The regional party committee and people's government have so far taken the following measures:

1. The leading group in charge of production and the expansion project of the Liuzhou Cement Plant has been readjusted and strengthened.
2. Overextended auxiliary production facilities and living facilities have been checked one by one, and the floor space of such facilities to be built has been reduced in accordance with the opinions of the investigation team from the State Council.
3. Some 273 mu of land taken over for building residential quarters have all been returned to production teams, and 91 workers who were recruited from collectives as a result of taking over the land have returned to their production teams after receiving ideological education.
4. The plant's number of workers and staff members is fixed in strict accordance with its designed expansion project, as jointly examined and approved by the State Planning Commission, the State Building Materials Bureau and the regional people's government; and the plan put forward by the plant and the autonomous region has been discontinued.
5. A joint check-up is being conducted on the extra land taken over for the plant site, and the land is being surveyed plot by plot. When the check-up is finished, the plant will return the extra land to its owners at once.

6. To insure that the expansion project will be started in the fourth quarter of this year, the plant and the prices and supplies departments will make a joint thorough investigation into the 7,300 metric tons of steel products already ordered. The supplies department will be responsible for readjusting the extra amount of steel products ordered and exchanging them for other materials.

7. The special machines the construction unit originally planned to purchase with money from the expansion project investment will not be included in the budget for the project, and the purchase of such machines that the construction unit does need will be handled according to relevant state regulations.

The regional people's government has also specially organized leading cadres of the units building key projects in the region to study the important instructions issued by a leading comrade of the party Central Committee and to check up on their own work. Moreover, the regional people's government has decided that from now on all units building key projects must institute a responsibility system at each level so that each aspect is taken care of by someone.

Qiao Xiaoguang, first secretary of the regional party committee, said on several occasions: It is necessary to draw a serious lesson from the incident of the Liuzhou Cement Plant, to overcome bureaucracy, to change the style of leadership and to effectively improve our leadership over the construction of key projects and economic work in the region. He stressed: From now on, the regional party committee must properly handle the relationship between the whole and the part in considering problems in economic work or discussing how to carry out some specific projects in the region; it must consider all problems in light of the overall interests of the party and the state. In building projects approved by the central authorities in particular we must act according to their written instructions; under no circumstances should we stick to our old way of doing things or do what suits ourselves.

At a number of relevant meetings, responsible comrades in charge of economic work in the autonomous region have examined the mistakes they made in managing this project and have pledged to resolutely obey the central authorities' decision to take disciplinary action against them.

CSO: 4013/338

INDUSTRY

DIVERSIFICATION WOULD PERMIT AVIATION INDUSTRY TO PLAY BIGGER ROLE IN ECONOMY

Beijing JINGJI RIBAO in Chinese 14 Jul 83 p 2

[Article by Wang Ruozhu [3769 5387 4554]]

[Text] "Like all other industries in the country, the aviation industry has taken a fundamental turn for the better since the Third Plenary Session of the 11th Party Central Committee, and a resurgence is forthcoming. As an old soldier, I am full of confidence in the resurgence of our nation and our aviation industry." This was what Duan Zijun [3008 1311 0193], a veteran dedicated to the revolutionary cause since the 1920's and was one of the pioneers in China's aviation industry, proudly told me as soon as we met.

Comrade Duan Zijun is now 70 years old, but still physically and mentally active. A native of Henan, he joined the students' association, organized by our party back in 1926 when he was only 14. This was how he embarked on the road of revolution. In 1931, he organized and participated in an uprising in his home village, and after the failure of this uprising, was sent to Shanghai by the provincial party committee. In the following year, the Party Central Committee sent him to Moscow to become a radio engineer. He returned to Yanan in 1938, where he worked in radio communications. He was one of the old-time technical experts in our party. In December 1950, the party committee sent him to work with Comrade He Changgong [0149 7022 1562] to start an aviation industry in New China. Since then, Duan has become inseparable from the aviation industry, in which he has struggled for more than 30 years.

Reviewing the development of the aviation industry in China, Duan recalled: At the initial stage, there were only 10 or so repair factories for light aircraft taken over from the old regime by the air force, and nearly 10,000 workers and staff members. At that time, the far-sighted Premier Zhou gave this instruction: The way to develop China's aviation industry is to start with repair service which should be developed according to overall planning into manufacturing. Duan added with great enthusiasm: "It was precisely Premier Zhou's important instruction and the hard struggle of the workers and technicians that enabled us, at that early stage, to complete in time the task of emergency repairs for the planes during the War to Resist U.S. Aggression and Aid Korea. It was also Premier Zhou's solicitude and the combined efforts of the comrades that enabled us to build, despite extremely adverse conditions, a fairly large industrial force, and to develop from the manufacture of the

first trainer plane, a copy, in 1954 to the independent production of many different types and models of aircraft, some of which have even been sold abroad. Compared with the past, this is really a phenomenal change!"

Today, an aircraft manufacturing system with backbone plants as the core has been formed in our national aviation industry. The workers, with their great technical skill, are well trained and experienced, and the productive capacity is quite high. In response to a question on which direction the industry will take in the future, he replied: "Our foremost task is to accomplish four changes: a transition from imitation to independent manufacture, a change from a military structure to a combined military-civilian structure in production, a change from domestic supply to a combination of domestic supply and sales abroad, and a reform from purely administrative management to a simultaneous adoption of economic management so that defense production will serve the national economic and technical transformation." "The aviation industry has fairly strong technical resources and fine equipment. Provided the requirements of defense production are met, its duty is to supply more advanced technology and equipment to other industrial branches. Thus it will not only create wealth for the country, but also bring into play its own technical superiority and improve its own economic results."

What are the current problems in the aviation industry? After some thought, he said: I feel that there are three problems which should be taken seriously and quickly resolved. First, in business administration, state regulations concerning the profits of the aviation industry are rather rigid, since the profits to be delivered are always at the same rate even though production costs vary. This is disadvantageous to technical transformation, and does not encourage constructive suggestions or the innovation and popularization of key technologies. It also hinders the improvement of business administration and economic results. Therefore, it is disadvantageous to the development of the aviation industry. The aviation industry is a technology-intensive industry, while the main products, such as aircraft, have to be quickly updated. Therefore, as a matter of policy we must encourage the development of new technology and popularize its application. Second, in the technical management of production, there should be a responsibility system whereby the chief engineer and the chief designer should be in charge of all-round testing, design and manufacture. This is not what we are doing today. Many comrades in the plants have complained that the work cannot be well developed and that the manufacture of aircraft has been slowed down. Third, as for civilian products, we should develop in a planned way whatever the local enterprises cannot undertake, or do not have enough time to undertake, instead of rushing into action on the spur of the moment to produce run-of-the-mill goods. For example, the aviation industry has helped Hainan Island in manufacturing equipment to bake rubber with infrared rays. This has not only helped the state fill a gap but has also economized on fuel (firewood and petroleum were used before). By this means, the aviation industry gave the local rubber industry some valuable assistance. There have been many similar cases, such as the automatic production line for germ-free bread, accessories for modern chemical fiber equipment, medicinal herb processing machines, marble grinders and so forth. An even more important task in production for civilian consumption is to develop civil aviation by producing more aircraft for this purpose. Although our investment capability and technology are somewhat inadequate, we can still improve our work in many different ways, such as sending people to study abroad, and importing technology for production.

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CSO: 4013/313

INDUSTRY

AUTO INDUSTRY PROSPECTS ANALYZED

Changchun QICHE JISHU in Chinese No 7, 1983 p 67-66

[Article by Zhang Xianxu [1728 0341 4958], Shi Depei [2457 1795 1014], and Yang Xudong [2799 3563 2639]: "A Brief Talk About the Jinan Automobile Plant and the Prospects for China's Automotive Industry"]

[Text] As we celebrate the happy occasions of the 20th anniversary of the founding of the Automotive Institute, the 30th anniversary of the No 1 Auto Plant, and the production of the 1 millionth motor vehicle, how can we old soldiers, who have spent over 40 years in specialized automotive work and are all 60 or more years old, not have all sorts of feelings well up in our minds? Before Liberation, we longed day and night to found our own auto industry, but it always remained a mere wish. Under the party's leadership after Liberation, China's auto industry has not only been founded but also already possesses an appropriate scale in the process of speedy development. How can we who have been fortunate to take part in this enterprise not also feel an upsurge of emotion?

As we recall the course of the Jinan Automobile Plant's development, it does not resemble the No 1 and Scihuan plants, which were built with a complete set of equipment imported from abroad. Nor does it resemble the No 2 Auto Plant, which was built primarily through self-reliance, along with comprehensive plans and designs, some imported foreign technology and equipment, and the concentrated support of the entire nation. The Jinan plant began with a foundation of producing auto accessories and by making do with whatever was available, went through a technological transformation and developed year by year. Now our plant still has fairly simple and crude equipment, as well as a rather low technological level. In step with the adjustment of the national economy in recent years, the province and the city switched to our plant the plants of several businesses that had to shut down. But even though our plant includes them, the entire plant still does not have much in the way of fixed funds, and it may be termed a poor plant. Even though this is true, since the plant began producing autos in 1958, it has successively trial-produced the JN 150 and the JN 252 series of the Huang He make. It has also undertaken to assemble an estimated 40,000-plus units of 12 kinds of heavy trucks in the Roman series under the Sino-Romanian economic agreement. These vehicles have not only played a rather large role in the defense industry, mine exploitation, communications and transportation, and other departments, received good reviews

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from their users, and enjoyed a certain reputation, they have also made a commensurate contribution to more than 20 national and regional communications and transportation projects in the area of out-area construction. To be sure, such achievements are negligible when compared with those of every brother plant. As far as a simple and crude plant is concerned, however, they are worth celebrating and feeling comfortable about.

At the same time, we should soberly look at the problems that the Jinan plant still has. For example, the equipment for performance tests of component parts and assembled chassis is not complete, so we mainly rely on road-testing entire cars. Because of inaccurate data, it is hard to guarantee the reliability of vehicle performance. At the same time, the shortage of technological testing devices makes it hard to adopt and promote new technology and new materials. Next, the plant's production capacity in casting and forging is weak, so the plant depends on plants built under agreements with foreign countries to supply it with the appropriate castings and forgings. Hence there is a latent threat in the area of balanced production. In addition, the development of rear-area and front-area production capacity has not been well coordinated. For many years now front-area production capacity has developed quickly while rear-area production capacity has not been able to develop correspondingly. Both equipment maintenance capacity and work clothes manufacturing capacity appear insufficient. These problems have an effect that cannot be ignored on stable balanced production, timely development of new products, and rapid rises in product quality. We believe, however, that under the direct leadership of the jointly managed heavy truck company, these problems will be solved quickly.

Now we should like to mention a few views about some aspects of China's automotive industry. In the 30 years since the industry was established in the form of No 1 Auto Plant, the achievements have been truly unprecedented. If, however, we compare it with rapidly developing industries like electronics, petroleum, nuclear, and others, we sense a great disparity. Even among the engineering industries the auto industry also lags behind. Therefore, it should sum up well and follow the development of circumstances in order to satisfy the needs of the national economy's development.

In the early period after the founding of the People's Republic, the auto industry was still a blank space. The No 1 plant adopted the import method, which was necessary at the time. As for the No 2 plant, its achievements have been truly great: it is the acknowledged leader of the industry, and the entire Chinese people have raised their heads to look at it. Each of its specialized factories, however, is there only to serve the No 2 plant itself. For example, its products can be selected for use from a series of assembly and auto supply industries. This will greatly spur the rapid development of China's automotive industry. Comrades Shaonong [1421 6593] and Zutao [4371 3447] have already talked about dying with everlasting regret if the industry does not attain a yearly output of a million units--such language represents the mood of the veterans of the industry. Yet even with the speed of today's development, that desire will be hard to realize.

Self-reliance is China's basic national policy. On 25 November last year, Marshal Nie Rongzhen also emphasized this guiding principle in his conversation with Comrade Xiong Fu [3574 1788]. The auto industry naturally should support this principle. Therefore, at the same time that we import products, we should also import testing equipment so as to create the conditions for the auto industry to develop new products independently. In the past, each plant had decentralized management and could not develop new products. In auto companies set up nowadays we can concentrate labor power and material resources and establish testing and research centers. Then we shall proceed to unified planning and arrangement--we shall bring into full play each plant's superiority, divide the work, and cooperate rationally, develop series of products in chesslike fashion, and together do pioneering work. In this way, we can avoid losses caused by blind "competition," and the automotive industry's glorious future will be just around the corner.

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CSO: 4013/270

INDUSTRY

DEVELOPMENT OF STONE MATERIALS EXPORTS

Harbin HEILONGJIANG RIBAO in Chinese 20 Apr 83 p 3

[Article by Wang Xianlou [3769 2009 1236], Sha Yinglu [3097 4134 3940], and Wang Junliang [3769 1093 5328]: "Export of Stone Materials Must Be Developed"]

[Text] Heilongjiang is superior in the area of stone materials. The development of their export has an unlimited future. Once their production becomes developed, stones can change into treasure, spurring a rapid rise in Heilongjiang's economic results. We say this for the following reasons:

1. Stone materials are high-quality building materials and valuable ornaments. In international trade, they have a very high economic value: they earn foreign exchange at a rate far higher than those of crude oil, raw coal, and common steel products. For example, the export of 1 cubic meter of stone materials is equivalent to the export of 1.25 metric tons of crude oil, 9.5 metric tons of raw coal, 1.25 metric tons of steel products, 0.79 metric tons of soy beans, or 1.14 head of live cattle.
2. Stone materials not only sell at a high price but also find good markets. In the international market, the gross annual volume of trade in stone materials amounts to \$1.2-1.3 billion. Imports of stone materials will not take a great beating even if capitalist countries suffer from fairly serious economic crises. Since Heilongjiang began making trial sales of stone materials to Japan last year, Japanese businessmen have set a high value on them and have also contended among themselves to place orders for them.
3. Heilongjiang has abundant stone materials resources, various kinds of stone materials, and stone materials of fine quality. Many localities produce granite and marble of rather distinctive qualities that are provincial treasures. As long as the stone materials are processed properly, they will certainly be a commodity in great demand in the international market.
4. In the past few years, Heilongjiang's export of stone materials has proved in practice that developing stone materials production not only does not compete with industry for raw materials and with agriculture for land, but also can obtain foreign exchange for the state and increase provincial, local and individual income.

On the other hand, Heilongjiang's present stone materials production capacity is limited. Many stone materials mines are managed by production team enterprises; their equipment is simple, crude, and outmoded; their production techniques are backward. Thus output is low and production costs high. As a result, the requirements for export are far from being met. So that stone materials resources genuinely become an area of economic superiority for Heilongjiang, we suggest the following:

First, correct recognition of stone materials resources' value; important places for the development and utilization of stone materials resources in Heilongjiang's economic development; and a long-range plan, comprehensively thought out, for stone materials production.

Second, relevant departments should marshal their forces, pay attention to geological prospecting, and as fast as possible comprehensively ascertain the state of Heilongjiang's stone materials resources. Any resources that can be processed for export must get close and increased protection. Any plundering thereof must be forbidden.

Third, there should be realism about mines already exploited and with a future: solve the problems of the requisite capital and the necessary equipment.

Fourth, by every means possible raise the capital for stone materials production and exploit stone materials comprehensively and well.

In short, full utilization of the stone materials resources that nature has given to Heilongjiang in abundance is a problem that urgently awaits a solution. This must receive conscientious attention from now on.

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CONSTRUCTION

BRIEFS

JILIN CHANGCHUN URBAN CONSTRUCTION--Since 1980, Changchun City in Jilin has invested 532 million yuan to build and repair 3.13 million square meters of residential houses. The (Qianan) living quarters transformation project, which is under way, covers 124,000 square meters of buildings, of which 90,000 square meters are residential houses. The project was started in February this year and is scheduled to complete by the end of 1985. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 24 Sep 83 BK]

SHANDONG KEY CONSTRUCTION PROJECTS--From January to July, Shandong Province invested a total of 459.63 million yuan, or 48 percent of the quota as planned early this year, in constructing the state's top-priority projects in the province--the Yantai Synthetic Leather Plant, the Yanzhou-Shijiusuo Railway, the Shijiusuo Port, the Yanzhou Mining Area and the double tracking of the Jiaozhouwan-Jinan Railway. The Yantai synthetic leather plant has been basically completed and has produced up-to-standard products. Bank [word indistinct] of the Shijiusuo Port has completed. Seventy percent of the roadbed and large- and medium-sized bridges for the Yanzhou-Shijiusuo Railway has been completed. A total of 55.5 km of rails have been laid. For the double tracking of the Jiaozhouwan-Jinan Railway, 306 km of rails have been laid and 24 sections, totaling 170.5 km, have been opened to traffic. The Yanzhou Mining Area ranks first, in terms of speed and quality of construction, among the eight key mining areas of the state. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 23 Sep 83 SK]

LIAONING NEW FISHING PORT--With 3 million yuan of construction investment, a large fishing port was built and went into operation in (Zhangzi) Commune of Changhai County, Liaoning, on 13 September. The main body of the port is two 500-meter-long, 15-meter-high, and 10-meter-wide dams. It is equipped with boat building and repairing plants, cold stores, and fish processing workshops. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 22 Sep 83 SK]

GUANGDONG CAPITAL CONSTRUCTION PROJECTS--Guangdong Province has recently decided to stop or suspend 186 capital construction projects and to cut down investments by approximately 80 million yuan. The amount of investments in all prefectures and cities in the province from January to July this year was more than in the same period last year. [Summary] [HK161209 Guangzhou Guangdong Provincial Service in Mandarin 1100 GMT 8 Sep 83]

HUNAN CAPITAL CONSTRUCTION PROJECTS--In order to concentrate financial and material resources on state key projects, Hunan Province has decided to stop or suspend 102 local capital construction projects, resulting in cutting down investments by 55 million yuan. These projects, each of whose gross investments exceed 1 million yuan, number 13. [Summary] [HK161209 Changsha Hunan Provincial Service in Mandarin 2310 GMT 9 Sep 83]

CSO: 4006/016

DOMESTIC TRADE

MARKET FORECASTING NEEDED TO SATISFY CONSUMER NEEDS

Chengdu SICHUAN RIBAO in Chinese 27 Apr 83 p 3

[Article by Li Feng [2621 6912]: "Stressing Consumption Changes, Strengthening Market Forecasting"]

[Text] The overstocking of some commercial goods ties up large amounts of circulating capital and influences the improvement of economic results while other goods are out of stock and consumer demand cannot be satisfied. At present, this is a persisting contradiction in the marketplace which urgently needs to be resolved.

The principal cause of the appearance of this contradiction is unchecked production and ignorance of the interacting effects of consumption and production. Marx has said, "Conceptually, consumption provides the object of production, it is its innermost image, its necessity, its impetus and purpose." Under present conditions of production of commercial goods, consumption takes place through the exchange of currency and goods in the marketplace and changes in consumer demand are reflected in changes in purchasing behavior in the marketplace. If enterprises, in the course of managing production, ignore the effect of consumption on production and lack information on changes in market consumption, the result must be market contradictions. To resolve market contradictions and harmonize the relationship between production and demand we must strengthen market forecasting. So-called market forecasting is an economic activity in which industrial and commercial enterprises, through research on market activity, carry on a scientific analysis and evaluation of developments and trends in market changes using economic and technical methods. Market forecasting appeared and developed along with the emergence and development of commercial production. At present, market forecasting has already become an independent science with an integrated scientific system and a complete technical methodology. Under present circumstances in which our nation is still in a stage of commercial production and, moreover, needs to continue development of commercial production, market forecasting is an objective necessity.

First, market forecasting is an objective requirement of socialist commercial production. Socialist commercial production is, on the one hand, carried on for the sake of exchange and, on the other hand, it is also carried on to satisfy the material and cultural living needs of the people. This

requires that commercial exchange be carried on smoothly to guarantee that goods produced by enterprises can compensate for the cost of production and also obtain a certain profit. At the same time, it also requires satisfaction of the needs of the masses. The latter is the basic condition for smoothly accomplishing the former. If the goods produced are out of line with the needs of the people, this must result in the phenomenon of supply exceeding demand, creating unsalable goods, and enterprises will not be able to make back their costs, to say nothing of obtaining a profit. In the opposite case, enterprises produce a relatively small amount of goods which are urgently needed by the people and supply does not meet demand. Although costs are recovered and a profit obtained after the sale of this portion of goods, yet because there is high demand for goods in right supply, the consumption needs of the broad masses cannot be satisfied. It can be seen that the objectively existing requirements of socialist commercial production that enterprises make back their costs and obtain a profit, and that the needs of the people be satisfied are a unified system of intimately linked elements. To unify the two elements consumption changes must be understood, attention must be paid to market information and market forecasting carried on to enable enterprises in the course of managing production to set production by sales and demand.

Second, market forecasting is needed to make socialist economic planning scientific. The basic economic principle of our nation is to rely on a planned economy and make market regulation subsidiary. Commercial goods regulated by the marketplace of course require market forecasting, but does this mean that products regulated by planning do not require market forecasting? Obviously not. Because the planning department gives the production unit a quota under the command plan, the enterprise must achieve it. If this type of quota is set in circumstances of not understanding market requirements, then this quota inevitably will be blind, and enterprises that carry on production according to this kind of quota cannot help but create the result of overstocking or shortages of goods. This explains that the planning department can only guarantee the scientific nature of planning if they go through market investigation and strengthen market forecasting. This has an important relation as to whether the guiding plan for production units and enterprise production is or is not suited to the requirements of the national economic plan. In order to enable the guiding plan to correctly direct production, its accuracy must first be improved. This also can only be done through market forecasting and understanding market information.

Third, market forecasting is needed to improve economic results. Improving economic results is the core of economic construction, and the production and management activities of enterprises are all centered on improving economic results. Apart from a series of economic and technical measures to raise labor productivity and perfect economic responsibility systems there are many ways to improve economic results and one way is to strengthen market forecasting. But the primary condition for improving economic results is that product quality, design and color, and variety

are suited to the needs of society. If products are not suited to the needs of society, then the more labor productivity is raised, the more goods will become overstocked, creating even greater economic losses. This result can only make economic results more and more inadequate. To make production meet social needs, market forecasting must be carried out, complex and changing social needs researched, and the regularity of consumption changes mastered.

Fourth, market forecasting is also needed to carry on the scientific management and administration of enterprises. Enterprises in the course of production management carry on organization, guidance, supervision, regulation and other management activities enabling personnel, finances and materials to be brought into the fullest play to make production, supply and sales harmonious and smooth. This is the basic substance of economic activity. Only on a foundation of deep investigation and research, carrying on market analysis and extrapolating market needs and trends of development can we make policy to direct production and only then can we effectively strengthen the scientific nature of management and administration.

Practice has proven that paying close attention to consumption changes and strengthening market forecasting are matters of objective necessity and urgency in organizing economic activity and overcoming unchecked production. As a result stressing, speedily establishing and strengthening various kinds of market forecasting mechanisms and market information systems is a matter of top priority for the overall improvement of economic results and the development of socialist production.

9810

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DOMESTIC TRADE

HOUSEHOLD APPLIANCES MORE WIDESPREAD IN BEIJING

OW220512 Beijing XINHUA in English 0809 GMT 21 Sep 83

[Text] Beijing, 21 September (XINHUA)--TV sets and washing machines, luxury items for many Beijing residents several years ago, are used in more and more Beijing homes.

TV sets could only be seen in government organizations and big factory clubs in the 60's. But today, said Li Furao, planning manager of the Beijing Electric Products Company, this comes to 1.34 million sets, and almost 90 percent of the urban families and around 20 percent of those in the rural suburbs have TV sets.

A growing number of people prefer to save money and wait for color TV sets with a larger screen, Li said.

The four major articles Beijing residents nowadays want to get, Li said, are TV sets, washing machines, refrigerators and radio-cassette recorders.

According to Li, the city today has more than 760,000 radio-cassette recorders.

The sales of washing machines increase 20 percent each year. In the past 8 months 160,000 were sold.

Refrigerators are still a luxury although the city put 8,000 pieces on the market in 1981, 18,000 in 1982, and 20,000 in the first 8 months this year. All were sold out soon after being put on display in stores.

Other electric appliances Beijing people are also buying include electric pots, toasters and electric fans.

In the late 60's and early 70's, residents in Beijing focused their attention on four other items: wrist watches, bicycles, radios and sewing machines.

"These are common in Beijing homes today," Li said.

However, he said, sales of mini-radios have been rising in the last 2 years. He attributed this to the increase in FM programs and foreign language teaching over the radio.

CSO: 4020/005

DOMESTIC TRADE

BRIEFS

COMMERCE DEVELOPMENT STATUS REPORT--Since 1949, along with the development of production in industry and agriculture and the raised income level of the people, the circulation of commodity goods has been expanding rapidly. From 1952 to 1981, the total commodity procurement price of state-owned enterprises has increased from 17.5 billion yuan to 246.9 billion yuan, up 13 times. The procurement price of industrial goods in 1981 was 168.51 billion yuan, about 68 percent of the total procurement price in the same year. The procurement price of the agricultural and sideline products was 76.5 billion yuan, about 30 percent of the total procurement price in the same year. From 1952 to 1981, social commodity retail sales increased from 27.7 billion yuan to 235 billion yuan, an increase of 7.5 times. Urban social (non-agricultural population) in 1981 commodity retail sales were 102.6 billion yuan, about 44 percent of the total volume of social commodity retail sales in the same year. Rural (agricultural population) commodity retail sales were 132.4 billion yuan, about 56 percent of the total social commodity retail sales in the same year. Of the total of 235 billion yuan in social commodity retail sales in 1981, (including independent sales in industrial enterprises and retail volume of trade in urban and rural collective markets) total state-owned commodity retail sales were 23.5 billion yuan (excluding agricultural supply and marketing cooperatives), about 10 percent of total sales, and individual unit commodity retail sales were 3 billion yuan, about 1.2 percent of total sales. [Text] [Beijing JINGJIXUE ZHOU BAO 22 Aug 83 p 5]

CSO: 4007/238

FOREIGN TRADE

QUESTIONS REGARDING UTILIZATION OF FOREIGN CAPITAL

Yunnan JINGJI WENTI TANSUO /INQUIRY INTO ECONOMIC PROBLEMS/ in Chinese No 5
20 May 1983 pp 18-22

/Article by Lu Menglong /7120 1125 7893/: "Questions Regarding the
Utilization of Foreign Capital in China"; Portions Within Slantlines in Bold
Face/

/Text/ China needs a great deal of capital to carry out socialist modernization. According to foreign forecasts, by the end of the 20th century, the total investment required to realize modernization in our nation is about US\$600 billion. Two-thirds must rely on domestic savings and one-third must come from foreign capital. In the next few years, half of the factories will undergo equipment and technical renovation which will require a capital of about \$200 billion, but the capital that can be used for renovation is only \$60 billion, a difference of \$140 billion. Whether this estimate is accurate will have to be tested in construction practice, but this is sufficient to show the glorious scale and the strong economic potential of China's socialist modernization, and at the same time, it also shows the necessity of utilizing foreign capital in the course of China's economic construction.

Comrade Hu Yaobang pointed out in his report to the 12th Party Congress: "Opening our doors and expanding economic and technical exchange according to the principle of mutual benefit are the unwavering strategic principles of our nation. We want to promote our domestic products so they can enter international market and greatly expand foreign trade. We must utilize more of the foreign capital that can be utilized as much as possible to carry out construction. For this, we must make all necessary preparations, arrange indispensable domestic capital and various matching measures, we must actively import some advanced technology suitable to our nation's situation, especially the advanced technology helpful to technical reforms of enterprises, and we must exert efforts to digest and develop such technology in order to push forward our nation's production and buildup." "As we carry out socialist modernization, we must establish ourselves in self-reliance and mainly rely on our own struggle." These words clearly described the necessity of utilizing foreign capital and the fundamental principles and methods of attracting foreign capital. It is the fundamental guiding ideology in our work to utilize foreign capital.

The question of utilizing foreign capital is a very complex question. There are many subjects that need to be studied. Domestically, it is closely related to the system, structure, theory and methodology. Externally it is directly influenced by the world's economic trends. There are very sharp political, economic and technical struggles. We must conscientiously study and explore them under the guidance of Marxism-Leninism and Mao Zedong Thought. Now, we will talk about some views concerning the conditions of utilizing foreign capital, the major channels, the forms and the problems that should be noted.

I.

As science and technology advance, internationalization of economics and production also advance greatly. The relationship between nations has become more dependent and inseparable. International division of labor is an objective advancement in modern day economic development. Every nation participates in the international division of labor and is engaged in foreign trade. The international flow of capital is an indispensable intermediate link in world economic activity. Our nation must use the flow of capital to participate in international economic activities and technical exchange. This is undoubtedly a very important factor in improving our nation's social productivity and in stimulating economic prosperity. But, because of our different social system and the different goal in foreign trade, in the question of utilizing foreign capital, we must recognize its duality, i.e., there is the positive side of progress and development, and there is the negative side of exploitation and control. Therefore, we must take effective policy measures to strengthen control and supervision. At the same time, we must also fully grasp favorable conditions, actively utilize foreign capital by taking the initiative, introduce modern technology and facilities and hasten the development of economic buildup.

The conditions in our nation for utilizing foreign capital include international and domestic conditions. International conditions, generally speaking, consist of the following major factors:

First, the main competition in the world today is the struggle for hegemony between the United States and the Soviet Union.

The United States is on the defensive in this struggle. The Soviet Union is on the offensive. They both need China as a force to serve as a check and balance. At the same time, the main stream of unity of the Third World against hegemony is progressing further and is developing prosperously. Therefore, in politics, we should join with the Second World, unite the Third World, utilize the U.S.-Soviet conflict to develop normal relations between nations and implement the open door policy. In economics, we should strengthen "south-south economic cooperation" on the basis of mutual benefit, and at the same time, develop economic and trade relations with Western nations and improve economic and trade relations with the Soviet Union and Eastern European nations.

Second, the capitalist world economy has preliminarily formed the triangle of three powers, the United States, the European Common Market and Japan.

The United States is economically the strongest. The annual gross national product is more than \$2 trillion. The membership in the European Common Market has increased from the original 6 to 10 at present. They are coordinating policies internally and strengthening unity. They constitute a force countering the United States and the Soviet Union. Japan has developed rapidly since the 1960's. Now it has become a world economic power. Its exports increased from \$4.4 billion in 1962 to more than \$80 billion in the 1980's, an increase of 18 times in 20 years. Now, it enjoys an annual surplus of \$20 billion, and each year, it exports \$5 billion in capital. The three powers of the United States, the European Common Market and Japan cooperate in certain aspects to oppose the Soviet Union and struggle against each other for their own benefits. The Soviet Union and the countries of the Council for Mutual Economic Assistance /CSMA/ are suffering many economic difficulties, and the struggle between forces supporting control and opposing control is growing. We should analyze their conflicts and utilize their conflicts to serve our nation's socialist modernization.

Third, the entire capitalist world economy has undergone 20 years of prosperous development during its "golden age," but now it is at a turning point.

In the 1950's and 1960's, the sale of industrial products increased an average of 12 to 15 percent annually. In the 1970's, it gradually dropped and by 1979 the increase was only about 5 percent. During the past 2 years, the increase has dropped further to 2 to 3 percent. World trade has entered a recession for more than a year now. The present worldwide economic recession may continue to 2 or 3 more years. Reflected in capital flow, the general demand has dropped drastically. In foreign loans, Japan increased its foreign loans another \$8.6 billion on the basis of an increase of \$900 million during the fourth quarter of last year. The increase in foreign loans by Europe dropped from \$55.6 billion to \$4.9 billion, and the United States reduced its increase from \$40.7 billion to \$27.6 billion. In the three powers described, there is a general surplus of products and capital. Inflation is very serious, and all are seeking ways to realize economic recovery. We need capital to realize modernization, and we can completely utilize their anxiety to seek profit and to rid themselves of their difficult situation and use their mutual competition to realize our goals.

In domestic conditions, strategic analysis shows we have many advantages:

First, we have already formed a stable, unified, lively and active political situation. Since the 3rd Plenum of the 11th Party Congress, the ideological line of Marxism has been reaffirmed by bringing order out of chaos. In organization and leadership, the leading groups at each level have been reorganized and strengthened. In political life, socialist democracy and rule by law are gradually being made sound. In economic construction, a series of correct policies and measures have been taken, and the healthy

road of steady development is being followed. The 12th National Party Congress held last year further determined the strategic goals, the key strategic points, the strategic steps and a series of correct principles for our nation's economic construction. By the end of this century, we will strive to quadruple the total national industrial and agricultural production value of 1980 and increase it to about 2.8 trillion yuan so that our gross national income and major products will rank among the first in the world. Now, world opinion believes our nation's political situation can maintain a very long period of stability, and world nations welcome our nation's open modernization policies and are willing to develop trade with us and maintain credit relations.

Second, our nation is a socialist nation, the territory is expansive and the population is large. After more than 30 years of efforts, we have built a strong economic foundation and a complete industrial system. In agriculture, we have implemented various types of production responsibility systems that link production to contract work and our agriculture has now become prosperous and lively. Among the more than 400,000 industrial and commercial enterprises throughout the nation, several tens of thousands directly serve foreign trade and exports. Our nation's export trade increased from \$9.7 billion in 1978 to \$20.9 billion in 1981, and a greater increase was again realized in 1982. A favorable balance of \$2 billion was registered during the first half of that year, and foreign-exchange reserves increased \$7.1 billion. Under the guidance and organization of correct policies and principles, such a complete national economic system and economic strength that is continuing to grow can completely resist control and maneuvering by international monopolization of funds.

Furthermore, our nation has rich natural resources, especially when there is a serious energy shortage in the world, our nation's rich reserves of petroleum, coal and natural gas are very attractive to the West and Japan. Now, 33 foreign oil companies are bidding for rights to prospect and develop our nation's coastal oil. More than 30 foreign commercial banks have established offices in our nation. According to estimates, in the next few years our nation can borrow at least \$20 billion from the international money market and we have the surplus strength to easily pay back the principal plus interest. Because of the drop in international interest rates, foreign nations hope we can quickly begin massive borrowing so that they can realize some benefits.

One thing divides into two. In our work to utilize foreign capital, there are also unfavorable factors. For example, in the severe worldwide economic recession at present, how can we prevent and reduce its effect on our nation's exports to realize foreign exchange. The present structure of our nation's economic system, the method of utilizing foreign capital in a versatile way, and advanced means of consultation and transportation conditions are still very unsuited to the needs of the new situation, and we must conscientiously solve the problems in the course of developing our work.

Based on the above analysis, the Central Committee has decided to establish ourselves in self-reliance and hard work, to expand technical exchange with foreign nations and to expand foreign trade in a big way according to the principle of equality and mutual benefit, and to utilize more of the foreign capital that can be utilized as much as possible. This decision is wise and feasible.

II.

In order for our nation to utilize more of the foreign capital that can be utilized as much as possible, we must study and grasp the characteristics of different channels for utilizing foreign capital and the appropriate ways that should be implemented.

At present, there are the following international channels for capital which our nation can utilize:

One is the European Money Market.

This market is divided into a funds market, a credit market and a capital market according to the length of time of loans. Although the loans are mainly short-term loans, it also provides long-term loans and it can also issue bonds. According to statistics, the total capitalization of the European Money Market at present is about \$860 billion. Deducting redundant savings between banks, the net capitalization is about \$480 billion. About 75 percent are in U.S. dollars. The capital that can be utilized during a current year is about \$60-70 billion. The capital structure of this money market consists mainly of foreign-exchange reserves of the central banks of various nations, the funds of the IMF and inactive capital of large international banks and international companies. The basic characteristic is that the transfer of various types of money is not limited by each country, the control of foreign-currency savings is relaxed, capital regulation is more versatile, but the interest is rather high. When credit controls exercised by each country become tight, loan activities become more active. During the oil crisis, it has served greatly to solve the difficulties in international balance of payments among nations.

Two, is the domestic capital market of each nation.

The source of funds of this market consists mainly of long-term and medium-term savings absorbed by large commercial banks and other financial institutions, business revenue of insurance companies, a part of the inactive capital invested in the market, savings and savings of local government departments and enterprises. It mainly combines with foreign trade to provide short-, medium- and long-term capital in the nation's own currency within national boundaries.

Three, is government loans.

These are special funds allocated in the budgets of major capitalist nations. In general, they are provided only for low-interest financial assistance to developing nations. Our nation has already borrowed several billion U.S. dollars as capital from this source. Practice proves that as long as our nation is skillful at establishing exchange relations and keeps its promises, there are conditions for obtaining more such loans.

Four, is the capital of international monetary agencies.

They mainly include the IMF, the World Bank, the International Development Association /IDA/ and the International Finance Corporation /IFC/, which are all agencies of the United Nations. In operation, they all have their unique duties. The IMF mainly provides loans of less than 5 years to member nations to solve the deficit in the revenue and expenditure of the loan recipient nation. The World Bank mainly provides long-term loans to developing nations for as long as 20 to 30 years. The present interest rate has been adjusted from 7.9 percent to 11.6 percent. The IFC provides loans and investment capital to private enterprises of member nations. The term is 7 to 15 years and government guarantees are not required. The IDA provides interest-free loans to developing nations with an average gross national product by population of less than \$320. The term is as long as 50 years. Our nation has obtained a total of \$459.4 million in interest-free and low-interest loans from these financial agencies since 1980. In addition, there are also foreign-aid funds provided by the United Nations. According to our nation's present conditions, these funds can also be utilized and the United Nations has taken some measures to provide such assistance.

As the international economy and trade develop and as technical exchanges increase, the flow of international capital has correspondingly undergone many new changes. Various ways have emerged in the utilization of foreign capital, such as buyer's credit, seller's credit, bank credit, leasing credit, increasing export trade, developing tourism, exporting laborers, foreign currency exchange and establishing special economic zones to attract foreign capital, etc. There are countless ways. In view of our nation's actual situation, we should mainly organize and grasp the following aspects well at present:

1. We should greatly expand export trade to earn foreign exchange.

This is the fundamental way. In recent years, although our nation's exports have increased steadily by a large scale, they constitute only 1.1 percent of total world trade. The potential is great, the task is huge and the gap is large. Commercial products constitute the material foundation of foreign trade. They are also the basic prerequisite for utilizing foreign capital. The increase in our nation's foreign trade exports must make a breakthrough. The key is to adjust the structure of commercial products to adapt to the needs of development in the international economy and international trade. Strategically, we must mainly change low-value commercial products to high-value products, change primary products to final products, change light structure to heavy structure, and gradually develop toward intelligent

products. Within a definite period, we must develop and export coal and petroleum and such mineral sources of energy according to plan, utilize the potential of the machinery industry, enlarge the export of machinery and electrical products to exchange for capital and at the same time develop the superiority of exporting various types of traditional agriculture, sideline handicraft products and technical products of the whole nation.

2. We must organize project loans to adapt to the needs in construction.

This new form of international loans developed in the 1970's has infiltrated all channels of international funds and has been used by many nations on a widespread basis. Because such loans are stipulated for special projects judged to be capable of repayment and profitable, feasibility studies must be conducted with the nations applying for the loans, and the use of the loans is to be supervised jointly. The loans can enhance our nation's borrowing power. The cost of the projects can be lowered, economic results can be improved, the risk of foreign debt can be reduced, therefore we can effectively utilize foreign capital in many ways. These loans are suitable for some of our nation's products that have a good market, that are strongly attractive, that can guarantee repayment and that can make a profit, such as energy, transportation and such key projects.

3. We should actively use many versatile methods that can be combined with trade to strengthen the utilization of foreign capital. Here, the most important and effective method is joint capital ventures and compensatory trade.

Joint capital ventures, according to present conditions in our nation, are only one of the ways to utilize foreign capital by utilizing our nation's natural economic resources combined with foreign technical facilities. Therefore such ventures are domestically oriented. The goal is not to use or to use a little free foreign exchange to import advanced technology, to increase new construction projects, to fill the blanks in our nation and to strengthen the competitive ability of products in the international market. But, the shares of foreign capital must be controlled, we must implement a strict contract system, we must have an overall plan, we must select joint projects and we must pay attention to solving well the question of rights of both parties. Compensatory trade is a method of international trade established on the foundation of credit. It has the characteristics of barter. It is the use of commercial products to pay for loans. Our nation has not used this method of utilizing foreign capital by combining credit and trade for a long time but it has served a definite function in expanding foreign trade and increasing foreign-exchange revenue. Practice proves that to conduct compensatory trade well, we must conscientiously review the scope of compensatory trade, pay attention to how advanced the technical facilities are and strive to create conditions favorable to us to guarantee economic results.

4. We should greatly develop tourism and export workers.

These two are potential superiorities of huge resources in our nation. Tourism is exporting scenery. In 1978, the world's export of scenery constituted 6 percent of the world's total exports. Tourists reached 1.2 billion. Total revenue from tourism is estimated at \$325 billion. The figure is shocking. Our nation is an ancient civilization. Tourist attractions are scattered throughout the nation. The scenery is enchanting. It can attract guests from far away. Since our nation opened to foreign tourists, foreign-exchange revenue from tourism increased at an annual average of over 20 percent. There is a bright future. Tourism is a high-quality service profession, therefore we must have full facilities and improve service. Our nation has an inexhaustible source of labor. It can be combined with construction to earn large amounts of foreign exchange and we can exchange science and technology. Why should we not do it. At present, our nation's labor force abroad consists of only 40,000 to 50,000 men. The number is not large. According to forecasts, there would be no problem developing this force to 1 million.

5. We should exert efforts to establish special coastal economic zones well.

This is a new way of attracting foreign capital, importing technology, expanding employment opportunities, developing various industries and increasing exports by establishing export processing zones. From the point of view of obtaining construction capital, this is a unique way of utilizing foreign capital. Special economic zones operate under "special policies and versatile measures." The state's sovereignty must be protected, and national economic development must be maintained. Favorable conditions are provided to encourage foreign firms and overseas Chinese firms to invest. At the same time, the development plan should be included in national economic plans. The state should actively participate in investment and use many ways, such as processing imported materials and compensatory trade, to attract more foreign capital and to carry out production buildup.

In general, in utilizing foreign capital, various channels must be established, many ways must be adapted, new ways must be developed, we must be able to achieve success one way or another, then we can utilize the foreign capital that can be utilized as much as possible and promote the smooth development of the international economy and trade.

III.

In utilizing foreign capital, we must pay attention to solving the following problems well:

1. The question of selecting foreign currency for the utilization of foreign capital.

Inflation is a world economic phenomenon. In utilizing foreign capital, what currency should be used for calculation and for repayment is a question that must be conscientiously considered. Current international monetary values of

various currencies fluctuate greatly because of worsening inflation and because of the continued rise in prices. In paying for imported objects and borrowing foreign capital, we should use soft currency. Among present imports, a large portion comes from Japan and West Germany. They require using the Japanese yen and the German Mark to calculate the price and for payment. Our nation's foreign-exchange revenue is mostly soft currency. This is a conflict in currency in our nation's use of foreign capital. Therefore, we must especially pay attention to studying the exchange rate between the Japanese yen and the U.S. dollar and the Mark and the U.S. dollar. In selecting currency, we must count the large and the small. Fluctuations in value of the currencies in the current international market are fast and large. We must constantly pay attention to the movements and make forecasts, grasp the opportune time and change with the situation.

2. The question of using foreign capital well.

How can borrowed money be used well. This is still a serious problem at present. It is not easy to borrow money and the use of money is even more difficult. Therefore, we must utilize foreign capital and utilize foreign capital well. In utilizing foreign capital, the four links of borrowing, using, earning and repaying are a unified process. We must borrow accordingly and use foreign capital rationally, be skillful in earning and repay the money in time. Therefore, we must insist on combining demand and supply, combining export credit and hard currency, combining the utilization of foreign capital and the arrangement of domestic capital, and avoid unnecessary economic loss.

3. The question of calculating the repayment ability and abiding by international credit regulations.

The limit of a loan is determined by the ability to pay it back. International data and standards for judging the ability to repay are generally calculated on the basis of setting aside 20 to 25 percent of the revenue from exports of the current year for repayment of the capital and interest in that current year. We should use this repayment rate to calculate the total limit of the current year's loans. We cannot surpass this limit. We must arrange medium- and long-term plans for borrowing according to the needs in construction and the ability to repay the debt. The utilization of foreign capital requires a control number and guarantees for approved projects and for the repayment of loans. Therefore, we must first make a detailed forecast of the profits from production and the ability to create foreign exchange beforehand. Now, we rely mainly on our nation's good international reputation and the good reputation of the Bank of China in the international financial market to borrow large loans with a low interest rate and at a low cost. In international credit, reputation is first, the borrowed money must be repaid according to schedule, it cannot be a day late and it cannot be short in amount. One delinquent payment will lower our nation's reputation and it would be more difficult to borrow.

4. The question of strengthening management in utilizing foreign capital.

Besides the strict regulations on the highest limit for loans to be solicited from abroad each fiscal year, which are not to be broken at will, we must also conscientiously strengthen management. When a sector and a locality need to utilize foreign capital, all projects beyond the limit must be subjected to definite reviewing procedures and listed in the state plans for comprehensive balance, and the Bank of China should uniformly seek loans from abroad so that the state's foreign-exchange revenue and expenditure can be uniformly planned, uniformly balanced, uniformly arranged, and uniformly managed.

5. The question of fully developing the function of the bank of China.

The Bank of China plays an important role in our nation's participation in the process of international capital flow, and it serves a special function. Besides actively arranging foreign-exchange loans according to construction needs and possible conditions, it should also serve an active function in creating foreign exchange. We must help industrial, agricultural and mining enterprises to produce products for export, help them enter the international market, actively arrange medium- and long-term loans, help import advanced technology, improve the ability to compete internationally, and at the same time, actively support the development of tourism and the production of handicraft products. In face of the fiercely competitive international market, the key to social progress should be to train special talent in a big way, actively push forward the modernization of communications technology, channel economic information and improve work efficiency. Only in this way can we make the contributions we should make.

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FOREIGN TRADE

ADDITIONAL FOREIGN EXCHANGE FUNDS FOR ENTERPRISE TRANSFORMATION

Beijing JINGJI RIBAO in Chinese 12 May 83 p 2

[Article by Staff Reporter Gao Yongyi [7559 3057 3015]: "The Bank of China Supports Medium and Small Enterprises' Technological Transformation With an Additional \$1.5 Billion in Foreign Exchange Funds"]

[Text] The Bank of China has decided that in 1985 it will provide another \$1.5 billion in foreign exchange funds to support the technological transformation of China's medium and small enterprises. Of this amount, \$1 billion is foreign exchange loans at favorable interest rates and the other \$500 million is to be loaned for trust joint ventures. Bu Ming [0592 2494], the president of the Bank of China, provided reporters with this information.

Bu Ming said that the Bank of China had previously given out \$1 billion in foreign exchange loans to support technological transformation in medium and small enterprises. This additional \$1 billion in foreign exchange loans increases the total to \$2 billion. By calculating that each enterprise will use \$500,000, 4,000 medium and small enterprises can be supported during the Sixth 5-Year Plan period. He pointed out that from 1979 till the end of 1982 the Bank of China provided medium and small enterprises with foreign exchange loans totaling about \$1.5 billion, supporting over 6,000 projects, and helping many medium and small enterprises to improve their conditions of production, expand productive capacity, improve product quality and increase the variety of colors and designs. According to incomplete statistics regarding repaid loans for over 2,600 projects, the loans were for over \$530 million, during the loan period there was increased output value of 5.7 billion yuan, over 710 million of additional taxes and profits turned over to the state, over 900 million of additional profits for the enterprises, 2.6 billion yuan of additional purchases of export products, 1.26 billion of foreign exchange inflows and increased product sales in the domestic marketplace of 31 billion yuan. This is to say that each U.S. dollar worth of loans can produce more than 10 yuan of additional output value during the loan period, with taxes and profits in excess of 3 yuan, export products at 4 yuan, and recovery of foreign exchange in excess of \$2.00.

Bu Ming pointed out that in addition to granting foreign exchange loans to support technological transformation the Bank of China can also undertake to provide support for developing international trust investments. He said that

in recent years the Bank of China has handled over 6,000 transactions in international trust services in international leasing, foreign exchange adjustments, joint ventures, acting as purchase and sales agents, and compensatory trade, all valued at \$1.1 billion. The remaining \$500 million of foreign exchange funds provided this time is a loan-type investment, i.e., a trust joint venture to be used primarily to import suitable technology and equipment for medium and small enterprises.

Bu Ming said that developing advantageous conditions for our overseas banks, especially those in Hong Kong and Macao, is another way for the Bank of China to provide support for enterprise technological transformation. Our banks in Hong Kong have already decided to provide loans of \$200 million to support compensation trade and support economic construction in Guangdong and Fujian. They also sent investigative teams to Beijing, Tianjin and Changzhou to carry out on-site inspections in the problems facing the technological transformation of enterprises in the interior. Many enterprises eagerly expect to gain our help in using foreign capital and importing technology. Fortunately, with regard to such matters as organizing foreign exchange funds, introducing customers and investigating foreign products, our overseas banks have many advantages. Bu Ming pointed out that so long as the concerned parties are closely coordinated and strengthen their cooperation, the prospects for taking advantage of the superior features of our overseas banks to support enterprise technological transformation in the interior will become brighter.

11582

CSO: 4006/564

TRANSPORTATION

ENLARGED PASSENGER TERMINAL OPENS IN SHENZHEN SEZ

OW251640 Beijing XINHUA in English 1625 GMT 25 Sep 83

[Text] Shenzhen, 25 September (XINHUA)--A newly expanded passenger terminal for Shekou Sea Port in the Shenzhen special economic zone was officially opened today, according to authorities of the economic zone in southernmost Guangdong Province.

Shekou Port was officially opened to foreign ships, by a decision of the State Council and the Guangdong provincial government.

A terminal building there, also newly enlarged, was put into service at the same time.

Passengers with valid legal documents may enter or leave China through Shekou Port. A cargo terminal there will also be expanded.

Shekou Port started receiving foreign ships in October, 1981, and limited passenger hovercraft service between Shekou and Hong Kong began in the same year.

It is planned that the hovercraft service between Shekou and Hong Kong will increase from three voyages to five to six in both directions every day. The Shekou Harbor will be able to accommodate 5,000-ton class freighters by the end of this year. It will also serve as a supply center for the exploration and development of offshore oil resources in the Zhujiang River mouth oilfield.

CSO: 4020/005

TRANSPORTATION

BRIEFS

NEW HEILONGJIANG RAILWAY BUREAU--Approved by the State Council, the Ministry of Railways has decided to abolish the Qiqihar Railway Bureau and merge its subordinate units into the Harbin Railway Bureau, Heilongjiang, effective at 1800 on 30 September. The reformed Harbin Railway Bureau has the Harbin, Mudanjiang, Jiamusi, Qiqihar, Jiagedaqi, Hailar and Yitulihe Subbureaus, with 320 large stations and sections and 210,000 staff and workers, under its jurisdiction. The Baicheng Railway Subbureau, originally under the Qiqihar Railway Bureau, will be merged into the Shenyang Railway Bureau, Liaoning. [Summary] [Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 23 Sep 83 SK]

JILIN CHANGCHUN URBAN CONSTRUCTION--Over the past 3 years, Changchun City in Jilin has built or expanded some 60 main and feeder roads, totaling 700,000 square meters, maintained more than 1 million square meters of roads. The (Didao) Bridge and the (Kaixuan) Road, located at the west of the Changchun Station and at the end of the (Xidao) Road and which link together, are being expanded. The (Didao) Bridge will be expanded from 15 meters to 31 meters wide. The 4.2-km section from the end of the (Xidao) Road to the (Hyancheng) Road of the (Kaixuan) Road will be expanded from 9 meters to 50 meters wide. Completion of this project will ease the strained traffic in the northern part of Changchun City. The (Qingnian) Road is a road which links Nongan, Baicheng, and Qian Gorlos Monggol Autonomous County. It will be expanded from 8 to 54 meters wide. [Summary] [Changchun Jilin Provincial Service in Mandarin 1030 GMT 20 Sep 83 SK]

SICHUAN AIRPORT EXPANSION--Chengdu, 25 (XINHUA)--Shuangliu Airport, an air transport hub in southwest China, has been expanded and was put into service today. Yutuated in Chengdu City, the expanded airport, with bigger runways and updated equipment, can now serve bigger planes such as Boeing 707. Passenger capacity is expected to increase by over 20 percent and cargo handling capacity will go up sharply, the airport officials said. The airport serves 31 air routes linking Chengdu with cities in Yunnan, Tibet, Guizhou and other parts of China. The expansion of the airport will also serve as a prelude to opening direct routes to Hong Kong and foreign countries. The expansion project began earlier in April. Its completion is a week ahead of schedule. [Text] [OW261045 Beijing XINHUA in English 0731 GMT 25 Sep 83]

CSO: 4020/006

JAPANESE TRADE MISSION VISITS COUNTRY

Chiang Ching-kuo Meets Delegation

OW121443 Taipei CNA in English 1402 GMT 12 Sep 83

[Text] Taipei, 12 Sep (CNA)--President Chiang Ching-kuo Monday received Hiroshi Anzai, chief of the Japanese imports promotion mission, at the presidential office.

Four other Japanese dignitaries were also present at the meeting. They are the mission's advisors Fujio Masayuki and Sato Shinji, Nishiyama Akira, chairman of the Interchange Association, and Hara Fujio, director of the association's Taipei office.

President Chiang extended his hearty welcome to them for their visit to this country. He told them that he greatly values the Japanese traders' sincerity in doing what they promised: buying more merchandise from the Republic of China so as to narrow down the trade gap between the two countries.

He said he believes that their efforts are significant in promoting normal development of trade and economic relations with this nation.

During the talks, President Chiang also exchanged opinions with the visitors on the Asian situation and the ways to enhance economic and trade cooperation between the two countries.

Settlement of the Sino-Japanese trade problem actually depends on long-term cooperation and efforts, President Chiang said. He hopes that through honest talks and the exchange of views, they will come to understand clearly the real requirements of the two sides.

Based on the principles of reciprocity and equality, Chinese and Japanese traders should discuss and work out a long-range plan to improve the Sino-Japanese trade imbalance so as to bring cooperation between the two countries to a new and better plane, the president stressed.

Ma Chi-chuang, presidential secretary general, Economics Minister Chao Yao-Tung, Koo Chen-Fu, chairman of the Chinese National Association of Industry and Commerce, Chang Kwang-shih, chairman of the China External Trade Development

Council, Chang Yen-Tien, chairman of the Association of East Asian Relations, and Mah Soo-Lay, the association's representative in Tokyo, were also present at the meeting.

Premier Sun Meets Delegation

OW130421 Taipei CNA in English 0231 GMT 13 Sep 83

[Text] Taipei, 13 Sep (CNA)--Premier Sun Yun-Hsuan Monday urged the Japanese procurement mission led by Hiroshi Anzai to help this country restructure its production industry as a first step to narrow the trade gap between the two states.

Sun made the remarks during a meeting in which he exchanged opinions with members of the buying mission and the press corps from Japan Monday morning at the Executive Yuan.

The difference in industrial structures in Japan and the Republic of China [ROC], he noted, is deemed one of the major factors contributing to the widening trade gap against this country.

The premier called for Japanese friends helping this country to prepare concrete and workable measures to remedy this situation during the Sino-Japanese trade conference to be jointly sponsored by the Association of East Asian Relations and the Interchange Association in November and the privately-sponsored East Asian Economic Conference to be held in the middle of December.

In the meantime, Sun also requested assistance from Japanese friends in the establishment of a good working relationship in the exchange of market information, particularly in helping ROC traders come to an understanding of the unique characteristics of the Japanese consumers market. He recommended the building of an information link between the China External Trade Development Council and its Japanese counterparts, MIPPO [as received] and JETRO [Japan External Trade Organization].

The cooperative program on whole plant export as discussed here during the visit of the mission is truly meaningful and should be promoted by the parties, Sun said.

The premier also attached great importance to technology transfer, saying that the parties should try to arrange the Chinese technical units to work with Japanese production units in a bid to promote the job.

The visiting group which called on Premier Sun Monday morning included Hiroshi Anzai, chief of the Japanese imports promotion mission, his two special advisors, Fujio Masayuki and Sato Shinji, and members of the Japanese press corps which accompanied the procurement mission during the visit.

CSO: 4020/003

TAIWAN-KOREA TEXTILE MEETING OPENS IN TAIPEI

OW140551 Taipei CNA in English 0253 GMT 14 Sep 83

[Text] Taipei, 14 Sep (CNA)--The future development of the textile industry in the Republic of China [ROC] and Korea is bright. It is not a sunset but a sunrise industry, Hsu Kuo-an, director of the industrial development bureau under the Economics Ministry, said at the opening ceremony of the 15th ROC-ROK [Republic of Korea] textile industry joint conference held in Taipei Tuesday.

Hsu pointed out that Japan also once considered the textile industry as a sunset industry. But the automation of the industry raised its productivity and improved its production structure. Its competitiveness in the world market was then restored.

Hsu urged the two nations' textile manufacturers to follow the Japanese example and to develop the industry with optimism.

The economics counselor of the Korean Embassy in Taipei and the chief of the Korean delegation to the meeting also delivered their respective speeches on the occasion, stressing the importance of the cooperation between the two nations.

A total of 89 textiles industry leaders from the two nations, 66 from the ROC and 23 from Korea, attended the meeting during which three themes were discussed:

- how to go about automation of the textile industry;
- coping with the import restrictions imposed by the United States and Western European countries;
- mapping out a joint plan for textile development for the next 10 years.

CSO: 4020/003

TAIWAN, ROK ECONOMIC COOPERATION COUNCILS MEET

Closer Economic Cooperation Urged

OW150351 Taipei CNA in English 0311 GMT 15 Sep 83

[Text] Taipei, 15 Sep (CNA)--Y. H. Pak, chief of the South Korean delegation to the 16th Sino-Korean economic meeting, stressed Wednesday Chinese and Korean enterprise groups should cooperate closely to develop the market in a third country.

His remarks indicate some change in Korea entrepreneurs' attitude toward competing with their Chinese counterparts in the international markets.

Pak is chairman of the ROK-ROC [Republic of China] economic cooperation council.

As the Republic of China and South Korea are both developing nations with similar industrial development level, and they also share common anti-communist stand and friendly relations, their traders should seek better mutual understanding and enhance cooperation in exploring new market, delegates attending the meeting said.

Kdd Chen-fu, chairman of the ROC-ROK Economic Promotion Council, also called on traders of the two nations to buy products from each other so that they can reduce imports reliance on Japan.

Economic Councils Issue Statement

OW170305 Taipei CNA in English 0239 GMT 17 Sep 83

[Text] Taipei, 17 Sep (CNA)--Business and industrial leaders of the Republic of China and the Republic of Korea Friday agreed to censure severely the Soviet Union for the deliberate downing of a Korean passenger plane.

They also agreed to appeal to the free world to apply strong and effective sanctions against the USSR for its dreadful atrocity, and to convey their condolences to the families of all passengers and crew aboard.

The agreement was reached at the conclusion of the 16th joint conference of the Council for Sino-Korean Economic Cooperation and the Council for Korea-China Economic Cooperation which was held in Taipei 15-16 September.

In a joint statement, the two councils agreed that in the course of promoting the economic recovery of the two countries, they should work hand in hand to strengthen their industrial cooperation in order to speed up their industrial modernization.

In view of the fact that both the Republic of China and the Republic of Korea will become full members of the Pacific Basin Economic Council next year, the two parties have agreed to work in full cooperation to strengthen their economic and trade relations with countries in the Pacific basin.

The two parties also agreed to:

--Strengthen their cooperation in textiles, machinery, electronics, the iron and steel industries and the shipbuilding and petrochemical industries.

--Seek further balanced expansion of bilateral trade on the basis of mutual benefit and encourage their respective enterprises to purchase products from the other nation.

--Strengthen the functioning of the Special Committee for Sino-Korean Industrial Cooperation in order to coordinate the industrial policies of the two countries, and promote long-term Sino-Korean economic cooperation.

--Promote cooperation between banking industries of the two countries to provide necessary financing.

The next joint conference of the two organizations will be held in Korea in 1984.

CSO: 4020/003

ECONOMIC GROWTH RATE TO EXCEED PLANNED GOAL

OW100923 Taipei CHINA POST in English 7 Sep 83 p 12

[Text] The nation's economy is recovering with its economic growth rate amounting to 5.44 percent in the first half of this year and per capita income growing by 5.8 percent to reach U.S. \$1,191. For the whole year, the economic growth rate is expected to exceed the planned goal of 5.5 percent.

The Executive Yuan made the remarks in an administrative report submitted to the legislative Yuan for reference in its 72d session meeting to start 23 September.

The Executive Yuan said the nation's economy has been picking up for four consecutive quarters since the third quarter of 1982 following prolonged recession which began in 1980. The growth rate in the first quarter of 1983 was 4.5 percent and in the second was 6.3 percent, marking an average of 5.44 percent for the first half of this year.

Gross Production NT\$965 Billion

Statistics also show that the national gross production reached NT\$965.2 billion or growth rate of 8.08 percent in the first half of this year, and the average per capita income in the same period was NT\$47,592, equivalent to U.S. \$1,191, registering a growth rate of 5.58 percent.

The growth in economy as a whole resulted mainly from the increase in exports because of the export-oriented economy of this nation. The Executive Yuan said the export growth rate rose from a negative 3.9 percent in the second half of 1982 to 5.6 percent in the first 6 months of this year, which has carried along manufacturing and investment here and led to more economic activity.

World Economic Condition

The Yuan said the world economic condition is improving with economics of major Western industrialized nations picking up, production in various nations increasing, unemployment rates dropping, and most of all, oil prices having declined. However, it pointed out, trade protectionism is still prevailing as all nations commit themselves to protecting their own industries and job opportunities.

Investment Willingness

The Executive Yuan also pointed to two major economic problems the nation now faces. One is that private investment willingness has not been fully restored from the period of global recession, and the other is the slow adjustment of the nation's industrial structure which has weakened the nation's competitiveness in world markets.

To help accelerate the nation's economic recovery and ensure steady growth on a long-term basis, the Executive Yuan worked out 26 measures in April of this year to stimulate investment, correct industrial development, and improve tax systems. With all these measures carried out, the Yuan said the economic growth rate for the whole year will exceed the planned goal of 5.5 percent.

CSO: 4020/003

BRIEFS

EXTERNAL TRADE GROUP DIRECTOR--Taipei, 16 Sep (CNA)--The Board of Directors of China External Trade Development Council (CETDC) approved in a meeting Thursday the employment of Chiang Ping-kun, deputy director general of the Board of Foreign Trade under the Economics Ministry, as the CETDC's new secretary general. Chiang will assume his new post on 1 October. The outgoing CETDC's secretary general, Wu Kuan-hsiung, who is concurrently deputy chairman of the board of directors, will retain his post on the board. Minister of Economic Affairs Chao Yao-Tung, in an address to the meeting, asked the CETDC to adjust its work wisely to be in line with this nation's changing foreign trade situation. He said he hopes the CETDC will consider the promotion of exports to Japan as one of its main priorities. The recent visit here by a large Japanese buying mission has paved the way for local traders to promote sales in Japan, Minister Chao said. He urged the CETEC to take this opportunity to improve the trade imbalance between this nation and Japan by uniting the efforts of domestic businessmen. [Text] [OW160701 Taipei CNA in English 0248 GMT 16 Sep 83]

IMPORT RESTRICTIONS LIFTED--The Republic of China announced the lifting of import restrictions on 594 items effective today to promote free trade and reduce the nation's \$12 billion foreign exchange reserve. The 594 items range from agricultural, forestry and livestock products to (?phosphorus), diamonds and some petrochemical materials. Of the total, 514 may be imported unrestricted, while the remaining 80 that have been banned completely may be imported either from certain regions or by certain organizations or importers. (Vincent Shao), director of the Board of Foreign Trade, said that the government will liberalize import controls on additional products in the middle of next month. He added these items are either too sensitive for a quick decision or involve disagreement among the relevant government agencies. Vice Economic Affairs Minister C. M. Wang said he believed that relaxation of the imports would not increase the trade gap between Taiwan and Japan because most of the products concerned are not imported from that country. The Republic of China has a trade imbalance of some \$3 billion with Japan each year. [Text] [OW191304 Taipei International Service in English 0100 GMT 18 Sep 83]

FOREIGN RESERVES--Taipei, 23 Sep (CNA)--The nation's foreign exchange reserves now amount to around \$12.7 billion and are expected to surge to \$13 billion in the near future, according to a ranking official at the Central Bank of China. The official attributed the rapid accumulation of foreign exchange reserves to the nation's expanding trade surplus. Unless the government liberalizes imports of a wide range of products, the official added, and there is a significant

boost in imports, the Republic of China's foreign exchange reserves will continue to grow. Another source noted that the above mentioned foreign exchange reserves exclude the central bank's gold holdings, which amount to about \$3 billion. [Summary] [OW230333 Taipei CNA in English 0305 GMT 23 Sep 83]

CSO: 4020/003

SMUGGLING BETWEEN HONG KONG, CHINA INCREASES

HK050252 Hong Kong SOUTH CHINA MORNING POST in English 5 Sep 83 p 13

[Text] Cases of smuggling between Hong Kong and China have reached a record number. Chinese customs authorities recorded more than 3,000 cases, involving goods worth 10 million yuan (about HK\$40 million) in the first 8 months of this year. Of these, 1,200 involved Hong Kong and Macao residents. And the Chinese authorities described many of them as big cases.

Chinese customs officials have also noticed a new method of smuggling. Their spokesman said Hong Kong people were cooperating with mainland Chinese to export contraband "legally" to China. The Hong Kong people would set up so-called "companies" and then take advantage of legal loopholes when registering their cargo order with the Hong Kong Government.

The customs spokesman also told the press that there had been a "tremendous increase" in the number of Hong Kong residents using boats and cars to smuggle goods to Shumchun. Of the more than 3,000 smuggling cases, 100 involved the use of boats. And the spokesman pointed out that these cases, although relatively few in number, involved a large amount of goods. Contraband worth 4 million yuan (HK\$16 million) had been seized from boats.

Smuggled goods worth another 3 million yuan (HK\$12 million) were transported by lorry.

Watches and nylon fabric were among the most popular goods smuggled to China, with silver ingots, silver coins, freshwater pearls and gold going the other way.

So far this year, more than 50,000 watches, 50,000 yards of nylon cloth and 4,000 electronic calculators have been seized by Chinese customs authorities, the spokesman said.

He mentioned a case in July involving a Hong Kong driver who was supposed to be transporting melons via Man Kam to To Shumchun. Officials found 1,389 silver coins and 37 catties of silver ingots hidden among the melons.

Another case he mentioned was on 22 August when Chinese customs officials intercepted a fishing vessel in Chinese waters and seized seven video-cassette recorders and 37 obscene videotapes. The vessel was found to be connected with a Hong Kong-registered aquatic products firm, he added.

The spokesman said smugglers were liable to heavy penalties. And he warned those who were allowed to cross the borders not to take advantage of their privileges.

CSO: 4020/118

END